925 Ideas to Help You Save Money, Get Out of Debt and Retire A Millionaire So You Can Leave Your Mark on the World

By

Devin D. Thorpe

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Smashwords Edition

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Also By Devin D. Thorpe

Your Mark on the World: Stories of service that show us how to give more with a purpose without giving up what's most important.

Your Mark On The World is available at most on-line retailers.

How to Read This Book

This book is a collection of articles that I wrote for FamilyShare.com, a remarkable website that offers fun, helpful and practical advice for families. Few people will choose to read this book cover-to-cover. Instead, most will skim the book, reading thoughtfully only those articles that apply to their own circumstances and skipping over others entirely. You may skip the article about putting eight children through college if you have only one, but may read with interest the article about planning a service vacation with your family.

If you enjoy this book, you'll be interested to read my other book, *Your Mark On The World*.

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Despite the help I've received from so many people, any errors that remain in the text are my responsibility alone.

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About The Author, Devin D. Thorpe

Chapter 1

Your Family, Your Money

Five Ways to Teach Your Children the Value of Money

It is noble and good to teach your children that money cannot buy happiness. It is also noble and good to teach them enough about the value of money to empower them to succeed at whatever they choose to do in life. Here are some tips to help you teach your children the value of money.

1. Provide a modest allowance. Giving your children a small weekly or monthly allowance that they can spend as they wish will help them learn the value of money. If your wallet is always open for them, they'll never appreciate what it means to budget or save.

2. Let them buy their own Xboxes. You will likely shower your kids with toys and gifts as they grow, many of which have genuine health benefits—like bicycles, skateboards or skis. There will be some things along the way that you and your children may disagree about their appeal, like video gaming systems. These are valuable opportunities to teach your kids about money. Let them save their allowance and work for the money to buy what they want. If you hire them to do chores, be sure not to pay them more than the neighbors would pay—the goal is to teach them the value of money and if you cheapen it, they will!

3. Encourage them to make donations to charity. If you expose your children to genuine poverty and help them see how a small amount of their money can make a difference for someone who is struggling, it will help them not only appreciate the value of money, but adopt a kind and generous attitude.

4. Help them open a bank account. As soon as your children are ready, help them open a bank account. Then, they can begin to earn interest and understand how the financial system works. Don't do it before they are eight years old. They won't be able to understand the concept of a bank holding their money. Don't wait past their twelfth birthday since teenagers have a dangerous ability to dismiss and ignore their parents. Do it while you have maximum influence and they are ready to learn. Make sure they learn how to make deposits and withdrawals all on their own.

5. Involve them with college savings. Even though your kids should contribute to their college education expenses, most parents recognize that the high cost of college effectively puts this burden on the parents. Open an account for each of your children and make contributions to each one equitably. Show them how their fund is growing—and how it compares to the cost of the education they want. Don't put this money in their name unless you have extraordinarily high confidence in their judgment. You'd hate to see the college fund become a beautiful new car for high school or a frozen banana stand on the beach after high school graduation.

Twelve Free Things You Can Do With Your Family

Quality family time doesn't have to be expensive. In fact, it can be free! Consider these activities you can do with your family that can be absolutely free:

1. *Visit the library*. Not only is this activity free, you can help teach your children the value and fun of reading. If you haven't been in a while, put this one on the calendar right now.

2. *Go to the park*. In a world of Xbox and Wii, there is no better way to show your kids what it's like outside than to take them to the park. Your kids may be surprised at how much fun they can have without a screen.

3. *Go to church*. Even if you don't usually attend, you'll find yourselves welcome at virtually any church, mosque, synagogue, temple or other house of worship. Expand your cultural horizons and help your family appreciate and celebrate cultural differences.

4. *Go for a walk*. It doesn't cost anything to usher the kids outside and just take a walk. Walking is great exercise and any time with your kids is quality time.

5. *Visit a historical site*. Not far from your home there is almost certainly a historical site —in fact, there may be many—just waiting for you to visit. Most are just landmarks with a short story. Visiting such a marker and then following it up with some simple internet research is a fun way to help your kids learn to use the Internet responsibly.

6. *Go to the beach*. Even if you don't live near the ocean, a sandy beach along a river or beside a lake can be just as much fun for kids.

7. *Build a snowman*. This may not be an option everyday—neither is the beach. Your kids will never forget the time mom or dad helped them make the world's biggest snowman.

8. *Visit grandma*. The relationship between grandparents and grandchildren is almost magical. Foster that with plenty of visits.

9. *Attend community events*. Most communities have a variety of events that happen every week at no charge, from concerts to book readings. There is always something happening. Make sure you're on the email notification list for the community centers with activities near you.

10. *Play a game*. It won't matter what game you play with your kids, from Xbox to Chutes and Ladders, your kids will cherish their memories of the times their parents played with them.

11. *Just listen*. Be there for your kids. Really be there. If you take the time to talk to them, especially your teenagers, you'll be surprised by what you learn. They'll appreciate the time as much as you will.

12. *Play a sport*. Take your kids out for a run, play basketball, kick a soccer ball around the yard, whatever fits their taste and ability do. Not only will you burn calories and teach them to do the same, you'll have more fun than doing your workouts alone.

This is a short list to get you thinking, but there are an endless number of things you can do for fun with your kids. Most will be more fun for them than going to the mall and they're all better on your pocketbook.

How to Create a Shared Financial Vision with Your Spouse

Ideally, even before you get married you and your (future) spouse will sit down and talk about your vision of the future together. A centerpiece of that vision of the future should be related to financial things. Even things you may not consider financial, have deep financial implications. Use this article as a guide to help you harmonize your view of the future now to keep your relationship strong over the next 50 years.

1. *Will you own a home*? Take time to describe the type of home you'd like to have. Discuss the city and even the neighborhood where you'd like it to be. Talk about how much you'll spend on your home.

2. *How many children will you have*? This decision may have already been made, but be sure to confirm with each other what you plan to do. Don't let financial considerations determine how many children you have, let the number of children you plan to have guide your financial planning. There is always a way.

3. *Will someone stay home with kids while they're young*? It is important to talk about your careers and how you'll manage raising the kids. Specifically talk about how you'll manage your roles as parents, providing for and caring for the children.

4. *How much more education will you and your spouse pursue*? You may be forty years old and still thinking about finishing college or going back to school for a graduate degree. Spend some time understanding one another so that you appreciate each other's individual goals for education.

5. *How much responsibility do parents have for their children's college education*? Some parents feel that their children are on their own after age 18 and others feel like helping their children through college is their responsibility. Still others help their kids all the way through graduate school, even if the kids are married. Make sure you've talked about your view of a parent's responsibility for a child's education.

6. *Is debt to be avoided morally?* Some people approach debt with purely practical thoughts. Others view debt as morally wrong. Be sure you and your spouse have talked about your views about debt so that you can develop either identical or at least mutually respectful approaches to borrowing money, using credit cards, etc.

7. *What sort of cars will you drive*? This seemingly trivial question may have a greater impact on your ability to achieve your other financial goals than any other question in this article. If always driving new cars is important to you, that will have implications. If you are content to drive old cars, that will have different implications.

8. *Where and how often will you vacation*? For many people, photos of family vacations are prized possessions and the memories are cherished treasures. For others, travel is a stressful burden. Talk about your view and how you'll approach family vacations. Be sure to consider, at least briefly, how the dynamics of vacations will change as your children leave the nest. Will you expect your children to visit home with their families at the same time each year or just pop in when they can?

9. *When and where will you retire*? Not only do you need to decide when and where, but also how you'll retire. What do you want retirement to look like? With careful planning, you may be able to retire much earlier than your peers. Some people can't imagine retiring—some never do. Talk about what's important to you.

As you talk about your financial future together, your goal should not be to persuade your spouse of your view so much as it should be to really understand how your spouse feels about these issues. If you can both listen and understand where the other is coming from on each issue, it will be much easier to eventually reach agreement on a shared vision.

With a clear, shared vision in place, you'll want to create specific long-term goals for realizing the vision. Buying a home will require a down payment, helping the kids with their college expenses will require college savings, retirement, too. As you look at the big picture, start developing the specific, actionable and measureable goals that will allow you to realize your vision. Then comes the hardest part. You've got to develop the short term action plan—the budget—that will allow you to achieve those goals and realize your vision.

My Marriage Is On The Rocks; We're Always Fighting About Money. Help!

Fights about money predict divorce better than any other measure, according to one study. The first place to start in your marriage is with an agreement that your marriage and your relationship are more important than money.

Now, let's talk about some ways that couples can work on finding agreement about money in their marriage:

1. Start with a broad vision. Seek to find common ground for a shared financial vision of the future. Don't worry about today at all in this conversation. You are seeking to find shared values about the future you'll build together. Big questions like whether or not you'd like to own a home, what retirement might be like, and whether you'll both work or whether one will be a breadwinner and the other a homemaker. It is important for you both to be honest with each other. While it might have been nice to have this conversation before you were married, have it now before things get worse.

2. Write down your shared vision. You'll be surprised at how hard it is to write down a description of your shared vision. As you talk, you'll often fall into the trap of hearing what you want to hear. The act of writing it down and getting agreement that what is written represents a shared vision will be critical to moving forward together.

3. Take a break. If creating a shared vision of the future was stressful and painful, take a break for a day or a week or even a month. Remember the primary goal is to build a happy family not a fortune.

4. Set goals. Once you have a shared vision and you're ready to tackle more financial conversation, try to set some specific long term goals. If your shared vision included paying for the children to go to college, set a specific goal for saving for their college. Set savings goals for retirement, for a home purchase, for your careers as you envision them. Be specific but focus on the long term and not today. Do not fight over who spent more for lunch today!

5. Take a break. If you have written down some specific long term goals, you're doing great. That is huge progress. You now have a shared vision and specific goals. If you're having fun now, keep working, but if this is hard work and stressful, take a break for a few days or even a few weeks and come back to this when you're ready.

6. Review. Now that you've had a chance to create a shared vision and specific long-term goals, review these together. Make sure that you are still on the same page. If doubts and concerns have arisen, deal with them. Remember that you value your marriage more than money.

7. Create an action plan. This is where the rubber meets the road. It is time to start talking about how you spend money today in order to accomplish the goals and bring about the shared vision. It is reasonable to say that we'll take six months or a year to live out a dream—backpacking around Europe together, living in Colorado skiing in winter and hiking in summer, living in Mexico near the beach creating memories that you will cherish together forever. That said, it wouldn't be wise to borrow the money to live for a

year. If you've got it, spend it in a way that will bring you together. Then develop an action plan for accomplishing your goals and realizing your shared vision of the future.

8. Build a budget. A workable action plan likely includes something that looks an awful lot like a budget. If one of you objects to the term, call it something else. Spending guidelines, savings targets, discretionary spending limits all accomplish the same thing. Find language you can agree upon and then begin living by your budget, to realize your shared vision.

9. Remember, your marriage can still work even if you can't make a budget work. Focus on your goals.

Nothing is more important to the happiness of a family than the happiness of the marriage. Find your shared vision for the future and work together to bring it about. Once you're fighting for the same thing you'll stop fighting over the same old thing.

Five Money Management Tips for Teens

If you have teenagers, you have plenty to worry about, I understand. I've been there. As you try to have your last and lasting influence on them as they race toward adulthood, you're worrying about sex, drugs, alcohol, college and so much more. Add money to the list.

Here are some tips to help you teach your teens to be financially responsible adults:

1. *Get a job*. Teens have plenty to do these days, with school, sports, music lessons and all the rest. It may seem like a terrible use of time to have your teens work, too, but a job may provide some of the most valuable education they'll get before they leave home. Having their own money—money you didn't give them—is good for both parents and their teens for helping them to establish independence.

2. *Open a checking account*. You may need to cosign, but if your teens don't have a checking account by age 16, help them get the account opened so they understand how it works. Take time to explain basic concepts like how to keep the register current, how it takes time for checks to clear so money may already be gone, and how to reconcile bank statements at the end of the month.

3. *Open a separate savings account*. Help your teens understand how to save, by helping them to open an account and put money aside for things they want to buy—this may require you to break your pattern of buying whatever they need.

4. *Get a credit card*. If your teens learn to manage a checking account successfully, opening a credit card account with a small limit and likely with a parent as a cosigner is a logical next step. It may both serve to give you comfort that your teens have some emergency money with them at all times and that they are learning to be responsible. It is important for you to monitor the usage, to see what your teens are buying and most importantly that they are paying the bill in full each month. Your goal is to teach your kids to be responsible adults, not to help them establish credit. Watch closely to ensure they don't run up bills they can't afford.

5. *Prepare for college*. Encourage your teens to plan and prepare financially for college. Most teens are in reality going to be responsible for some costs in college, even if it is just the money for socializing. Help them to set aside some cash and plan ways to earn money either during the summer or during the school year once they leave home.

By working with your teens to open and operate bank and credit accounts and to work a part time job will help them as much as anything else you can do to become productive adults. Once they go away to college, your opportunity to coach and train will be largely gone, but you'll still be their primary resource for money. Make sure they understand how money works before they're gone.

How To Get Your Kids To Work Like You Did

Some parents who grew up in a world where they were expected to earn their own spending money as teenagers feel disadvantaged by the experience and then seek to deprive their children of the same privilege in hopes of helping their kids get ahead. What a disservice!

We live in a cruel world where people are universally expected to be productive members of society. Too many kids today finish college without having had any real work experience and don't know what it's like to show up to work on time, take direction from a supervisor or to be responsible for accomplishing a task by a deadline.

Chances are that you worked as a teenager, babysitting, waiting tables, delivering newspapers, or mowing lawns. Maybe you hated it. But the experiences of work helped to make you the productive part of society that you are today. Encouraging your kids to earn their own spending money teaches them the value of money and how to be good employees.

The key to motivating your kids to take responsibility for earning their way in the world is to limit the amount of spending money you give them. It isn't a bad idea to give your kids a modest allowance. It's best if the allowance is tied to doing chores around the house. Even then, be sure to limit the amount of money you give your kids. The whole idea is to leave the kids wanting more money than you give them so they have the desire to earn some money on their own.

It seems unwise to give teenagers exclusive access to a car for which they have not paid. If you choose to give your teens cars, consider requiring them to be responsible for the insurance, gas and maintenance so that they learn responsibility along the way. In most cases, it would be better to encourage them to save for a car or simply use public transportation. If you dare, you can also let them borrow your car—so long as they gas it up for you once in a while.

The more pressure teenagers feel to earn money for their own expenses, the more responsibility you are teaching. Some parents worry that they are depriving their children of valuable study time and that working will lead to lower grades and fewer opportunities in the future. Of course, there needs to be a balance, but a college graduate with straight A's through high school and college who has never had a job will be at a great disadvantage in the workforce. Similarly, a high school graduate whose grades are not good enough for college will be at a great disadvantage in the workforce. Help your teens find the right balance.

How To Make Family Vacation Memories That Last On A Budget!

Family vacations do have an important purpose. Really. They help to bind families permanently with shared memories of great experiences. A week in Disney World, Hawaii or Paris would certainly do it. Can you create powerful memories of a shared experience without spending as much as a car costs to do it? Absolutely yes.

Around the world there are national parks organized by national governments (modeled on National Parks in the United States) where families can stay in their own tents (or RVs) for $15 per day or less. Some National Parks feature low cost cabins or more comfortable lodge accommodations at reasonable prices.

Once inside a park, there will be plenty to keep you busy for a week. All parks feature nature trails of varying difficulty, some of which will challenge even the heartiest and others that can easily accommodate a stroller or small children. Wildlife abounds in the parks. Bring your camera to get photos of the scenery and the critters scampering over, around and through it.

Most parks feature places for fishing. Basic equipment from Wal-Mart and required state licenses add up, but most families would find fishing fits the budget—especially if you eat what you catch. The lakes and rivers in the parks also provide opportunities for boating. If you don't have a boat, you may be able to rent canoes or rafts in or near the park—be sure to check it out in advance.

Many parks also feature historic sites that you can visit at no additional fee with your family. Tour guides will explain the history and significance of the site. Junior Ranger programs available at some parks will also keep your school age children learning and having fun during their visit.

A quick internet search for national parks and the country you hope to visit will provide instant resources for a low cost trip.

One challenge for enjoying a trip in a national park is to have the right equipment for the weather. Parks like Yellowstone in Montana and Wyoming will be cold at night even in the summer. In addition to a tent, you'll need warm sleeping bags and equipment for cooking your food. You'll want to start planning your trip early. Make reservations for the campsite you want—some are very popular and are reserved well in advance.

Instead of saving up for the trip each month, as you prepare, you may want to buy some of the gear you need so that by the time the trip comes, you've got everything you want without a big balance to pay on a credit card. The actual cost of the trip, gas, food and park fees will be quite modest (at least compared to a Caribbean cruise). Depending on your lifestyle, you may find that because so many things are free inside the park that you'll spend less on vacation than you do in a typical week at home!

How to Make a Family Staycation as Fun as a Family Vacation

The financial realities of our times are that expensive family vacations will be rarer and more difficult for some families. If your family is in that situation, a staycation (a vacation planned at home) can be just as much fun as a vacation.

Here are some tips for a fun and successful staycation:

1. *Treat your staycation like a real vacation*. Make sure that everyone in the family is free of all commitments, with no one going to work, no one going to school and no soccer games. You're all on vacation. Dispense with as many chores as possible. Clean the toilets and do the laundry when you get back "home."

2. *Think of your home town as the destination*. Get online and research all of the tourist destinations for your home town and vicinity. Focus on sites that you can visit cheap or free and places you've never been. Most native New Yorkers I've asked, say they've never visited the Statue of Liberty. Your town likely has sites as important to your town as the Statue of Liberty that you've never visited. Now's your chance. Visit your home town with the eye of a visitor.

3. *Avoid the routine*. During your staycation, don't get trapped in your old routine. Don't go to the same old restaurants or fast food joints. Even if all you do is switch from McDonald's to Burger King for a week, you'll make your time together feel more like a vacation and less like a lame week at home.

4. *Pick a day trip or two*. During your staycation, you can plan a day or two where you travel outside your home town, preferably to a place you've never been or rarely visit. A day or two outside of town, even when you return home to bed, will give your staycation more of the feel of a vacation.

5. *Go to a movie—in the daytime*. Not only will you pay less to go see a movie in the daytime, going to the movies when you normally work or are in school will feel even more vacation-like than going in the evening.

6. *Fill the time*. A staycation needs to be fun to be memorable. Having time to relax is important on vacation, but it's risky when you're on staycation. Time spent just relaxing at home may start to look a lot like just being at home, with the kids playing their familiar video games, Facebooking, and watching TV on the same old sofa. Plan lots of activities that are unusual for your family so that you come home every night exhausted and ready for bed. Treat your home less like a base of operations and more like a cheap motel you're trying to avoid by having fun away from it.

With a little planning, your staycation can save you a fortune on travel expenses and lodging and still allow you to have more fun than you've ever had on vacation before.

I'm Planning A Vacation Abroad, How Do I Avoid Currency Related Problems?

Travel abroad is exciting, fun and scary. There are so many new things to worry about: language, traffic patterns and signs, delicious food, strange food, and colorful money. Virtually every currency in the world, except U.S. currency, is bright and colorful. Figuring out how to use the beautiful, colorful money without overpaying in country or being charged high fees along the way takes planning.

The following are currency related issues that you should plan for when traveling abroad:

1. *Exchange rates*: Exchange rates, the price of foreign currencies in terms of U.S. Dollars will vary from one day to the next. In fact, they vary from one moment to the next, though in most retail exchange locations you won't see changes happen throughout the day. On the internet, you can watch exchange rates fluctuate moment to moment. The rates you'll see on the internet will always be better than the rates you can get when you are exchanging currency. There is no easy way for consumers to hedge or protect themselves against painful swings in currencies while planning for or going on an international vacation.

2. *Exchanging Money*: As a general rule, you want to exchange money as seldom as possible. Do some research and careful budgeting for your cash use on the trip and exchange once at the beginning of the trip all the cash you plan to spend so you won't have to frequent money exchange services, banks or ATMs with frequency. Generally, the best rate you can get is to use an ATM in the airport when you arrive. Daily or per transaction withdrawal limits set by the ATM operator may force you to pull out cash more often than you'd like. There will be fees, but the exchange rate should be superior to the rate you'll get at the bank (either at home or in the foreign country) or at your hotel. Experienced business travelers should note that leisure travel generally requires more cash than business travel as many tourist spots deal strictly in cash. Try not to get too much cash; exchanging it again when you get home is expensive.

3. *Credit Cards*: Before you leave, call your credit card companies to find out what fees they charge for using the card abroad (while you've got them on the line, tell them where you're going so your card isn't deactivated the first time you use it). Use the one with the lowest fees. Some cards charge no fee for foreign transactions.

4. *Avoiding Theft*: Using credit cards abroad is generally safer than cash. If a card is stolen, most major card issuers can replace the cards in country within a few days. No one can replace stolen cash. When traveling as a family, split up the credit cards between spouses so that neither spouse is carrying all the cards. If one spouse loses the Visa card, the other, supposedly, will have a MasterCard. One call to the Visa issuer to alert them to the theft will quickly end the worry and the fun continues on the MasterCard.

5. *Debit Cards*: Debit cards lack some of the theft protection rules that apply to credit cards; guard them carefully and use them only for withdrawing cash from the ATM.

With these simple issues covered, you can travel abroad and have a ball!

Planning a service vacation for your family

In *Your Mark On The World* I shared the story of the Smith family from Idaho, traveling around the world doing service on a four month service adventure. Most families simply couldn't afford such a trip. Virtually every family can afford some sort of service vacation as an alternative to a traditional vacation one year. Here are some tips to help you plan your trip.

1. *Identify your budget for the vacation*. Before you go on your service trip or even get serious about planning it, you need to understand your budget. Full service, international trips can easily cost $5,000 per person. Such trips have the potential to change lives, both the lives of those you serve and your children's lives. There are opportunities right in your own community where virtually your only cost would be the time you commit to the project. Every other budget in between will be an option.

2. *Research opportunities*. Projects abroad (among others) is a web site that connects people and families looking for international service opportunities to their projects. You can also start with the web sites for service organizations that have missions you support. You can travel with them. UBELONG is an international development organization that exists solely to place volunteers around the world on an affordable basis.

3. *Plan your own trip*. You don't have to arrange your trip through a group of any sort, nor do you need to travel internationally to have an impact. You can plan your own trip, as the Smiths did, researching opportunities to serve in a place you'd like to go—whether that is on the other side of the world or across town.

4. *Involve the whole family*. However you approach the trip, early in the process you'll want to include all of the children as well as your spouse in the planning. By getting everyone involved, you ensure that the trip will be a success. You want all of your children to come home glad they went, having learned something about giving back and having gained a perspective about their relative prosperity.

5. *Focus the family on the goals*. Help everyone in the family to share goals for having an impact during your service vacation. Use the months leading up to the trip to get everyone focused on the results you hope to achieve, the good you'll do and what you'll learn. A service vacation can and should include some fun activities, but most of your time will be spent doing service. Make sure that everyone is ready for that.

6. *Record the trip*. Make sure that everyone in the family records the experience. Some may want to blog about it; others may want to keep a private diary. Others may want to be snapping photos all the time. Whatever form it takes, encourage everyone on the family to make a first-hand record of the experience.

A service vacation can and should be the trip your family talks about for years to come. The lessons learned and the impact you have on others will make this trip different than any other vacation you'll ever take.

The Most Important Financial "To Do" This Year

Over the next twelve months there is one thing that is the most important thing you can do financially. Chances are you can either complete it or make great progress toward its completion over the next twelve months. What it is depends on your circumstances. Consider the following to help you decide what it most important for you.

1. *Build a plan*: If you feel like your finances are just a mess, you don't know what you have, what you owe or where things are, this may be the year to get it all organized. Figure out what you have and what you owe. Set some goals and develop a plan to achieve them.

2. *Credit card debt*: If you have credit card debt that has been frustrating you financially for the last few years, you may be wise to focus this year on significantly reducing those balances so you can get completely out of debt, buy a home if you don't already own one and start saving for your children's education and your retirement.

3. *Buy a home*: If you don't yet own a home and you have a job, you may want to make this year all about saving for the down payment. It will take sacrifice, but you can save enough for the down payment on a modest home in one year.

4. *College savings*: If you have several kids and no college savings, this may be the year to kick start the college fund by making that the key financial focus of your year. If your kids are in high school, this would be a very good idea. You can't fund four years of college for four kids in one year (it's almost impossible to fund one year of college for one student in one year—which is why we save for college) but you can make a big contribution in one year. By getting a big start this year, you'll start earning interest on your savings which is a bit like having the wind at your back.

5. *Retirement*: Everyone needs to have retirement savings, but if your kids are all gone and you're still working, now would be a good time to focus your finances on your retirement savings. The key rule for retirement savings is the sooner the better. Making an extra-large deposit in your retirement savings years before you retire will have a bigger impact than saving the same amount of dollars over the remaining years to retirement.

6. *Estate planning*: If you have accumulated a net worth (assets minus liabilities) of more than $1.5 million (congratulations by the way) you may need to talk to an estate planning attorney to help you organize your wealth for the most tax efficient way to move those assets to the next generation.

7. *Charitable giving*: Of course, you can and should make charitable giving a part of every year's financial planning. If your retirement is funded, the kids have completed college and your estate is in order, this year may be about organizing major charitable giving, to leave a legacy of having made the world a better place.

Not just this year, but every year brings a new set of challenges. Take the time every year to set goals and priorities for the year to fit into your long-term goals so that you can achieve your financial objectives and retire when and how you want.

Financial tips for buying an engagement ring

Listen, I'm not the guy to ask about style, diamond quality or color. I'm just the guy to coach you on buying the engagement ring. The only thing you've likely purchased that will be more expensive than the ring is a car—and only if you've bought a nice car!

Two to Three Months' Salary: There is an old convention that a ring should cost two to three months' salary. It isn't fair. It may not be wise. It is absurd. But you may be feeling like you need to live up to that standard. If you are early in your career, you are likely earning around $3,500 per month, depending upon your career, that would give you a budget of $7,000 to $10,500. For your sake, I hope you didn't just finish your cardiac residency—three months of a cardiac surgeon's salary would get attention at Tiffany's for sure.

To heck with convention: While you should want your future spouse to recognize the symbol of your love for her as a sacrifice, you may want to consider whether or not some of the money you might spend on a ring could be better spent on the down payment for a new home.

Don't Borrow: Nothing says I don't really love you that much like borrowing the money for the ring. If you marry a girl who discovers about the time of the wedding, that along with her beautiful ring she has acquired a 50 percent interest in a $10,000 loan to a jeweler (or a $10,000 balance on a credit card) you'll lose all the points you think you've won with the beautiful ring.

Shop Around: Whatever you do, do not buy the center diamond for a ring with your fiancé-to-be with you. You may look at styles and talk about tastes, but don't put yourself in a situation where you are negotiating price in front of your future wife. Nothing says "you don't matter to me" like walking out of the jewelry store in the middle of negotiations. Most jewelers have some flexibility. Leave your girl at home, so that if you don't find what you like at the price you think is fair at one store, you can get up and walk away. You can always come back and pay the asking price.

Diamond and Ring May be Bought Separately: If your future wife has a specific idea in mind for what the ring should look like, you may be locked in to buying the ring from that store. That said, if it has a large center diamond as many rings do, you are free to buy the diamond elsewhere if you can find a better deal. The ring jeweler will discourage you, certainly, but you may be able to save enough to overcome any penalty he may wish to apply.

A Note About Guy's Rings: Rings for guys are not traditionally so expensive or elaborate. A simple gold band will satisfy most. As a result, the issues about shopping for diamonds, financing and most of the other concerns are eliminated. A simple gold band costs just a few hundred dollars. Just be sure to pay off the credit card before the wedding!

How to Set Financial Priorities When You're Just Married

Life may never seem so full of potential as on your wedding day. Your wedding celebrations and honeymoon quickly transition to a new normal full of struggles, remarkably similar to the challenges you had before you were married. Taking time to set financial priorities can help to ensure a long and happy marriage.

Consider the following financial priorities and discuss them with your spouse:

1. Buy a home. If your education is complete, your first priority should be to get into a home. Owning a home, staying in it for a long time, and raising a family there will likely have a greater influence on your children than any other financial decision you will make as parents. Over the long term, home ownership tends to strengthen families financially as well. Making this your top priority is a good way to launch your lives together.

2. Save for your children's college. If this is a first marriage for both of you, chances are there are no children involved at this point so you may think it is premature to start saving for college. It's not. If you hope to have children someday, do yourself a favor and start saving for college now. By saving earlier you radically reduce the pressure to save later. Eighteen years is not a long time to save for college; by starting now, you may get 25 or even 30 years of saving done before your youngest children will start college.

3. Save for retirement. If you are in your twenties, with about forty years before retirement, you have an extraordinary opportunity to start putting money away for retirement. One dollar you save today will likely become $15 by the time you retire. If you contribute a dollar ten years from now, that dollar will become just $7.61 when you retire. If you wait twenty years and contribute a dollar it won't quite become $4.00. If you wait until you're in your mid-fifties, just ten years before retirement to contribute $1, it will become a mere $1.97 in ten years. Start saving now for retirement, even if it is only in modest amounts.

4. Save for a rainy day. It will rain. A major appliance will break. Someone will need surgery. The car will need a new transmission. You or your spouse will be out of work. Don't worry; something will go wrong. One day it would be nice to have a full year's expenses in savings as a cushion against almost any foreseeable disaster. For now, work on getting $2,500 set aside specifically for a rainy day. That emergency cushion can turn the vast majority of life's challenges into financial nuisances. When you use the rainy day fund, be sure to replenish it.

5. Save for a car. If you have a car payment now, commit to each other that it will be the last. When the car is paid for, keep making the payment into your savings account. Drive the car as long as possible and then use your savings to buy a replacement. Keep saving for the next car.

If you focus on these priorities—in the order presented—you'll find that you'll empower your lives with a combination of discipline and dividends that will make your lives together as happy as you hope.

Five Tips to Help You Involve the Whole Family With The Household Budget

Making ends meet and putting something away for the future each month is a real challenge for virtually all Americans. Our consumption-driven culture makes saving socially difficult—or at least makes spending too easy. So here are some tips to help you and your family get together on family finances:

1. Get the parents on the same page. Sit down with your spouse right away and make sure that you share the same financial goals. You may find out that you're not on the same page. Together, you can fix that. Remember that your marriage is more important than money and seek a way to compromise so that you can get synchronized, making the messages you send the kids so much more consistent.

2. Have the kids help make decisions about their activities based on the budget. Kids these days are often highly programmed, running from soccer practice to music lessons and from there to Girl Scouts. Sit down with your children and show them how much each activity costs and how much is available for those activities and let them help make the decision about which activities stay and which go.

3. Set a savings goal, measure progress publicly and celebrate milestones. Together as a family, set goals for putting money into savings each month. Monitor progress. When you reach the goal and put the target amount—or more—into savings, celebrate in a fun but budget appropriate way. Everyone in the family has an interest in spending money, but if everyone understands and shares a savings goal, you can shift the excitement from spending to saving.

4. Plan family activities together with the budget in mind. If you have just $20 for an evening's activity with the family, let the kids help decide how to make that a fun evening. Just a little creativity can make that into a splendid evening picnicking in the park or eating a pizza while watching a DVD.

5. Plan your family vacations together with a budget. Together, you can make choices between camping and staying in motels, amusement parks and beaches, long drives to far away locations and quick trips to neglected nearby sites.

By involving your entire family in your financial goals, you can increase harmony and happiness. A child told he can't do this or that fun thing because there isn't enough money, may be frustrated and angry. One who views herself as part of a team trying to save money for college and other goals will be excited about helping to do her part. Ideas for doing fun things on the cheap are likely to be improved by having more people involved in the planning, too. Your kids will think of things you never would and you may just have more fun yourself!

Four Insurance Policies You Shouldn't Be Without

As you roll happily through life, saving for the future and doing your best to build a happy family, the right insurance policies can make all of the difference in your life. There are four policies that are critical to maintaining the financial health of your family.

1. Auto insurance: states require that you have insurance if you have a car so it is likely that you have an auto policy. Most states, however, do not require that you have enough so if you only have the minimum required by your state, you may not be adequately covered. Your policy will likely cover the risk of totaling someone else's shiny new Chevrolet, but it may not cover the possibility that your bad luck has you totaling a Lexus or a Lamborghini instead. Check with your agent.

2. Homeowners insurance: your mortgage lender will require you to have and maintain a homeowner's policy, but your landlord won't. If you rent, you still need a policy, typically called a renter's policy, to cover the value of your belongings and the cost of being displaced. Both policies will also cover theft and other losses that may occur in or around your home.

3. Health insurance: while this topic has become politically charged in recent years, the fact remains that the cost of health care is beyond anyone who is not listed on the Forbes 400 when things really go wrong. Many employers make insurance for spouse and children very expensive. (In the olden days, I remember when insurance was so cheap that two working spouses often maintained dual coverage through both employers just so that every single penny of health care expense would be covered. This rarely happens today because employers share so much of the cost with their employees.) Even if your employer makes health insurance expensive for you, it is likely cheaper than anything you can find on your own. That said, it may be worth checking for a policy at ehealthinsurance.com where you can shop for individual policies.

4. Life insurance: life insurance is necessary as soon as you have dependents. Both parents should have a policy, even if one of you isn't working outside the home. That said, the policy on the primary wage earner should be larger, providing enough money to provide income through the balance of your kid's education. If you are saving for your kids' college education, your life insurance should probably include enough to cover that. For households where one spouse doesn't work outside the home, spouses should talk about whether or not to buy enough insurance to allow a spouse to stay home with the kids or if, in the alternative, part of the plan would be for the surviving spouse to enter the workforce. Remember, even if you decide that a stay-at-home spouse would return to work, he or she may not earn as much as the primary breadwinner has been. Life insurance will be needed to close the gap. Every day you wait, the more expensive life insurance becomes.

In addition to these policies, families with high incomes should also consider "umbrella" policies that provide significantly expanded liability coverage and "disability" policies that insure income if you can't work (social security provides modest protection for disability but it isn't adequate for high wage earners).

Don't expose your family to risks that others are willing to take on for a reasonable fee. You owe it to your family to protect them.

Chapter 2

Frugal Living

How to live like a millionaire

The book The Millionaire Next Door is a thoroughly researched book about the lives of actual multi-millionaires. The insights of the book are astounding. By and large, millionaires live more like the rest of us and less like the billionaires we see in Forbes.

Becoming a billionaire takes extraordinary risk combined with extraordinary luck—and some would add talent to that equation. Becoming a millionaire requires principally patience and discipline.

The following are some observations from *The Millionaire Next Door*:

1. *Millionaires are frugal*. Of course there are exceptions, but most millionaires are frugal. They accumulated their wealth by not spending the money they earned rather than by earning vastly more than other people.

2. *Millionaires drive frugally*. Most millionaires drive cars for a long time. A very long time in some cases. Though they don't necessarily scrimp on the cars they drive, they don't typically buy a new car every year or two. More commonly, they drive their cars for ten years or more.

3. *Millionaires live frugally*. Typical millionaires live in homes that represent less than ten percent of their net worth. Most do not live in homes that would be described as luxury homes. By living in modest homes, they put themselves in a position to compare their spending to people who generally have much less money and thus feel less social pressure to spend extravagantly on their clothes, cars and vacations.

4. *Millionaires save*. Millionaires tend to have a discipline to save unusual amounts of their earned income, sometimes as much as 40 percent. Most Americans save less than 4 percent of their earned income.

5. *Millionaires aren't lawyers*. Surely there are lawyers who are millionaires, but not many millionaires are lawyers or other professionals who work in shiny, tall buildings in major city centers. Such people, the book found, often feel so much pressure to consume their lavish incomes that they fail to accumulate significant wealth. Simply not working with or around high consuming people helps people to save and invest rather than consume.

6. *Millionaires are entrepreneurs*. Most millionaires own a business. They may not derive huge incomes from their businesses, but the business itself becomes a valuable asset over time. When millionaires retire, they not only have the benefit of savings invested like most of the rest of us, but also have valuable businesses that can be sold to help fund their retirements.

So, if you already live frugally, you already live like a millionaire. If you are young and you are consistently saving and investing your earned income, you can accumulate $1 million or more by the time you retire. Don't fool yourself, however; you can't easily turn a measly $1,000 savings account into $1 million even over forty years. Accumulating wealth, as the wealthy have shown us, requires discipline, living frugally and saving consistently.

I Earn More But Have Less; What's Going On?

It is almost never hard to spend money. The more you make, the easier it may get to spend money with the result that you have less money now than you did when you made less money each month.

Here are some tips to help you build a plan for your family to save more money each month.

1. *Set financial goals*. Together with your spouse, set some specific financial goals that will motivate the behavior you want.

2. *Prioritize your spending*. Spend your money in order of priority. Saving should be at or near the top of your spending priorities. Entertainment should be at the bottom. Spend only what is left over on those items you really don't need.

3. *Keep your savings out of reach*. By contributing to a 401k, you make your money harder to reach—it is practically difficult to get it and if you do, it is subject to penalties until you are retirement age. IRAs and 529 College Savings Plans have similar features that make it easy to put money in and hard to get it out.

4. *Limit credit card use*. Don't use your credit cards to make purchases you can't afford. Use credit cards as a convenient and easy way to track your spending. Stop using the cards when you stop having money in the bank to pay for the purchases.

5. *Prepare a budget*. You don't have to call it a budget, but you need one of those things that will keep you from spending too much money every month. Write down how much you'll spend for each discretionary category, like dining out, groceries, entertainment, clothing, etc. Note that some of these categories are not optional—you can't skip eating and the law requires you to have clothes—but you have huge influence over how much you spend—even on groceries.

6. *Follow the budget*. The budget is only as valuable as your self-discipline in following it. Hold yourself to account. Remember, the goal isn't to make you miserable because you can't splurge on a smoothie while you're at the mall, it is to empower you to be able to do the big things you want in life, like have a nice home with a mortgage you can afford and car that isn't always in the shop. Remind yourself of your goals.

7. *Keep a rainy day fund*. You should seek one day to have a year's worth of spending in a rainy day savings account. That will be hard to do. If you can get $500 and then a few thousand dollars in the account, however, you'll find that these funds go a long way to preventing small disasters from becoming major ones.

By following these simple guidelines, you can empower your family's finances with goals and vision that will translate into everyday decisions. Money will never buy happiness, but managing your money well can provide the peace of mind that will allow you to focus your family on what matters most.

Shopaholic? This One's For You!

It seems obvious that if you don't have the money to buy things you want, you shouldn't go shopping. The world seems full of people, however, who have charged purchases they can't afford. If you are a self-described shopaholic, here are some tips to help you avoid buying things you don't need with money you don't have.

1. Don't go to the mall when you don't have money for shopping. Don't go to the food court "just for lunch." Don't take your dry cleaning to a shop in the mall. Don't pick up your prescriptions at a drug store in the mall. Just stay away until you have money to spend.

2. Don't watch QVC or HSN as a way to get your window shopping fix. It is infinitely more difficult to talk yourself out of buying a specific thing at a specific price when there are only 16 left and they're going fast than it is to talk yourself out of not watching the channels at all.

3. Watch only recorded television where you can fast forward through the commercials. The budgets spent on television advertising are huge. Ginormous, in fact. Advertisers wouldn't be advertising if it didn't work. The easiest way to not let Madison Avenue talk you into buying stuff you don't need is not to listen to Madison Avenue at all!

4. Do not ever visit your favorite shopping web site, Amazon.com or whatever it may be, unless you have the money to buy something specific. Then buy what you need and leave. Fast.

5. Don't research your purchase before you're ready to buy. If you plan to replace your car in three years, it is dangerous to have a subscription to *Car and Driver*, or to spend hours on the internet reading reviews and checking prices and deals on cars. The same goes for washers and dryers, refrigerators and every other major purchase. There will be plenty of time to do the research when the time to make a purchase comes.

6. Throw the catalogs away before they even get into the house. When you pull a catalog out of the mail box, drop it immediately in the recycling bin. Don't keep it around, with its imploring cover, begging you to peruse its special prices, new colors and fabulous designs. It is much easier to say "no" to the catalog than it is to say "no" to the cute top on page 44 that would look *so good* with your favorite shoes.

You'll find that if you completely remove the reminders of shopping from your life, you'll not only spend less time shopping, you'll spend less money. Before you know it, you can shake the shopping habit.

Are you a spendthrift? Three Tips to overcome bad spending habits!

If you love to spend money, you are not alone. Many people get a little buzz from spending money. That feeling you get when you make a purchase may be slowly driving you into the poor house. Here are some tips to overcoming your spendthrift ways.

The book *The Power of Habit* explains the nature of a habit in three steps, the cue, the routine and the reward. Whenever we develop a habit, according to the book, it follows that pattern. A cue acts as a trigger. *My phone beeps.* We respond with the routine—the habit itself. *I check my email, Facebook and Twitter and return to my work ten minutes later.* We then receive a reward. *I feel loved because someone interacted with me.*

The same simple pattern is at work with spending. If we're in a store, we're surrounding with signals to buy. For the worst spendthrifts the biggest temptations are deep discounts. Big discounts justify our guilty pleasure of spending money. Is the reward, really having the new thing? Maybe not. The reward may be the little buzz we get from spending money. How to break the habit?

1. Look at the cue. If you love to window-shop but tend to go from looking to buying, start by not looking. Find something else to do that won't put you in harm's way. If you are on a limited budget, window-shopping may be pure torture.

2. Focus on the routine. Identify those times when you actually spend your money on things that you really don't need. What could you do instead? If clothes are your real problem, make a deal with yourself that when you don't buy clothes that you were considering, you'll do something else you love instead—that isn't so costly. It could simply be buying a soda or an ice cream at the food court instead of that cute new top. Change the routine.

3. Check the reward. If when you change the routine, you don't feel as good or better afterward, you may not be satisfying the craving. Try a different substitute. Try going to a movie or renting a DVD, anything else, to see if you can get the same pleasure with less money. Very quickly you'll change the habit and save some money!

Remember that when you buy something on sale that you don't need, you've still spent money you didn't need to spend. One way to find out if you have a problem is to inventory your closet. If you find lots of clothes you didn't even remember you had, you can benefit from a little bit of habit therapy. Read *The Power of Habit.*

Spend Too Much On Things You Don't Need? You Can Change!

Virtually everyone splurges once in a while, spending too much on something that they don't need. If you're like most people, this pattern doesn't represent a financial problem or even much of an opportunity. You probably cut back on spending naturally for a few days—or weeks if needed—to offset the splurge and everything falls into balance. If you have a real problem, a habitual pattern of splurging, however, you may be dooming your financial future.

First, let's try a financial diagnosis to see if you have a problem. Do you have credit card debt right now that exceeds all of your available cash? In other words, if you had to pay it all off today, could you do it? If not, you may have a problem. Now, consider whether you have purchased things in the last 60 days that you haven't yet used. If there is one thing or even two, it's not a big deal. If you can walk around the house and open closets and cupboards and find jackets you've never worn, shoes that have never been out of the house, kitchen gadgets that have never been in the dishwasher, tops or skirts that still have tags on them, camping gear that's never seen dirt, home decorations that are stuck in closets and have never actually decorated anything or apps on your phone that you've never even used, you've got a problem. Keep reading!

Now, let's consider *why* you're buying things you don't need. (I'm not a psychologist; I'm someone who loves to spend money.) Buying something is satisfying a need, perhaps for power or control, which should be coming from something else in your life. Give some thought to your biggest problems—apart from the spending. Give particular thought to things that make you feel like you want to go shopping. It may be the way your boss makes you feel. Anything that makes you feel powerless, anxious, or unappreciated, could be contributing to the problem. If you can identify the problem, you may be able to identify an alternative to shopping.

If not having enough money makes you anxious when bills come—and they come often—you could be shopping with your credit cards as a (futile) way to regain control over your finances. If your boss belittles you at the office, mocking your contributions, spending may give you a sense of power that helps compensate. If your spouse or children have been taking you for granted and you don't feel appreciated, splurging on yourself may be a way to soothe your hurt feelings.

If you can identify the trigger, the pain point that most drives you to want to shop, you may be able to identify another behavior that would reduce the impact of the trigger. Just understanding that you shop because your boss yells at you could help you resist the temptation to shop. Even more constructively, you could speak with your boss about the problem. If that doesn't work, you could even look for a new job. By trying to solve the problem at the root of your problem, you may be able to take control of your life again.

It may take some time, but each time you feel the urge to splurge, ask yourself the question, "why?" When you find the answer, you may be able to solve two problems at once: you may be able change or get away from an unhealthy situation and enable yourself to quit spending money you don't have.

What Can You Live Without? Four Rules To Help You Decide

For everyone who'd like to spend a little less and save a little more, deciding what you can live without often becomes a key question. Thankfully, very few people in America —though not none—are faced with this question in a literal sense. For most, the application of the question, "Can I live without this?" usually involves an item much more like a Prada bag or an iPhone than food or medicine. So how do you really decide what you can "live" without?

1. Utility and productivity: If your washing machine breaks and you have four kids, it could quickly become a real problem to not have a functioning washing machine. The utility and productivity of the washing machine would easily justify the purchase in most homes with children. On the other hand, it may be difficult to identify the utility of a cute new top. Unless you don't have any, chances are the top is functionally interchangeable with half a dozen others at home. You can probably live without that.

2. Affordability: If you're out running errands and you find yourself dead tired, stopping at Starbucks for a scone and a cold beverage won't likely ruin your budget for the month (if you don't do it every day) and it may just get you through a busy day to take a moment for yourself. Stopping at Nordstrom for a new pair of pumps for $300 as a reward, on the other hand, may blow the budget and undo weeks of progress.

3. Personal v. communal: The last time your husband spent $350 on himself without talking to you first, you likely wanted to break his new putter over your knee. On the other hand, if he walked in to suggest a long weekend in a cabin with the whole family that would cost about $350, you'd probably celebrate. Finding a way to really share the joy in an occasional splurge will make it easier for everyone to swallow any setback to the budget.

4. Budget: If you're fortunate enough to have a budget that allows for you to purchase a new Dolce & Gabbana handbag, more power to you. If, on the other hand, a new handbag from the Gap isn't in the budget, it may not really matter in your household that it is $1/20^{th}$ the price of the D&G bag, you still can't afford it.

You'll likely notice that there isn't a rule for how much cooler it is than the thing it would replace. It really isn't a fair question to ask whether the new iPhone is 18% lighter or 10% bigger. It certainly doesn't matter than some shallow-minded spendthrift is convinced that you just can't be cool without the latest iteration of some new technology. Subject your iPhone purchase to the rules above and if it works, great—otherwise wait!

Finding Cheaper Hobbies or Cheaper Ways to Enjoy Your Hobbies

Hobbies and sports are important parts of a balanced life, but some can get expensive in a real hurry. Consider how expensive golf can be, with special equipment (clubs, an expensive bag to hold the clubs, and a variety of little gadgets to go in all the pockets), supplies (balls and tees), clothes (special shoes, hats, shirts and pants), lessons, practice at the driving range and then finally green fees and a cart. Golf can become very expensive.

If you don't golf and your spouse does, I suspect you've known that golfing can be very expensive for a long time! Many sports and hobbies get expensive quickly. Here are some ideas to help cut down on the costs:

1. Running is a less expensive sport than cycling. If you are interested in getting in shape, try running (you may need to try walking first, I know I did) rather than cycling. Not only is the bike expensive, but the carriers for the bike on the car, the special shoes and clothes all add up to make cycling more expensive than running.

2. Golf on a cheaper course. Presuming you've already picked up golf as a sport, consider looking for cheaper courses to play or playing just nine holes rather than 18.

3. Make handicrafts pay for themselves. If you like crafting and want to make some money from your hobby—at least enough to pay for the hobby—be careful not to over invest. Before you spend thousands of dollars on a quilting machine, borrow one to see if you like using it and if you can sell what you made.

4. Restore it, then sell it. If you love to restore old things like cars or furniture, you should be able to get all of your money back—and then some—when you sell the things you restore. It may not be possible to earn a living with your hobby, but you can at least pay for all the resources required for it.

5. Try genealogy. You may be shocked to discover how little you know about your grandparents and may know nothing at all about your great grandparents. Tremendous amounts of information are available for free from FamilySearch. Not only is genealogy easy and cheap to start, it will give you and your family a greater sense of who you are.

6. Get it at the library. Get your books at the library rather than at the bookstore. You can even check out digital books at the library now!

People, even parents, all need a little time to play, to challenge themselves and to learn new things. Don't be afraid to have a hobby—be afraid not to have one. If your budget is tight, try things that are virtually free, like genealogy, walking, and reading. A hobby doesn't have to be expensive to be enjoyed; a hobby you can enjoy with your spouse and kids—at least some of the time—may be the best of all.

How to save money on the things you absolutely have to buy

The easiest way to save money on a purchase is not to make it! When you absolutely have to make the purchase for food, clothes, shelter and transportation, you need to get the best deal you can. Here's how:

1. Visit CouponMom.com today to learn how to minimize your food bill using coupons in combination with in store specials, using the online resources there that will help you never to miss a good deal you need. The site features in depth training to maximize your savings!

2. Find the great thrift stores in your town where you can buy used goods, especially clothes for a fraction of the new price. Remember, it will be used as soon as you wear it once anyone—why not pay $4 for a shirt instead of $20.

3. Shop garage sales on the weekends for the things you need. Don't be drawn in by the opportunity to buy someone else's junk, just because you can buy it for 75 cents. On the other hand, if you need a student desk for your kids, you may be amazed at what you can get at garage sales for $5 or $10.

4. When buying a car, look for a used car being sold by an individual. If you can afford a relatively new car that is still under factory warranty that is especially safe. Be sure to visit CarFax.com to check the status of the title. A "salvage" title means that the car was once totaled and someone salvaged and, you hope, restored the car. A salvage title does not mean the car's warranty is voided, but it does mean the car will be worth less as a trade in or when you go to sell it.

5. Get to know Craigslist and eBay. Craigslist is like a giant, ongoing garage sale. When you need something, before you buy a new one, check for a used one in good condition on Craigslist. eBay is especially good for things that can be shipped efficiently—relative to price. I've bought and sold several cars on eBay, some which had to be shipped across the country. (Once you're comfortable buying on the sites, you'll learn how to sell there, too—but that's another topic.)

6. Craigslist and other sites also feature homes for sale by owner, which sometimes sell for a bit less than homes sold by brokers—if only because everyone involved in the transaction knows there is no broker. If you try that, you may want to hire an agent or an attorney to help you with the transaction—for less than the standard commission.

7. Zillow.com will give you an objective, scientific estimate for the value of virtually any home, which can help you avoid overpaying for your next home.

8. Whenever you buy something on-line, you'll often notice a little box for a discount code. Before you surrender your credit card, do a quick Google search for the thing you're buying at the store you're buying it with the words "discount code" added to the search. Dozens of sites track and share codes—many of which quickly expire—but can save you big bucks when you check out.

Whenever you must buy something—or simply choose to buy something because you can afford it—take an extra few minutes—or a few hours for big purchases like homes

and cars—to get educated, find the discounts and the opportunities so you never overpay. But don't ever forget, you're not saving money if you're spending it!

Tips To Help You Eat Out Less And Save Money When You Do

Americans eat 20% of their meals in commercial establishments, meaning that on average folks are eating out more than four times per week. If you are among the 50% or so of Americans who eat out that much or more, consider the following tips to cut back on eating out.

1. Special occasions: save dining out for special occasions.

2. Buy frozen dinners: many frozen dinners offer the convenience of a meal out at lower prices and with the added benefit that you can do your meal planning for good health. It's harder to eat healthy in a restaurant; even if the calories are posted, most of the nutritional information is still lacking.

3. Learn to cook the foods you love to eat: if you find that you don't enjoy the food you cook at home as much as you enjoy the food you eat out, take a class and learn to cook the food you really love. Most people grow up eating and learning to cook what their parents eat. Many Americans over the last generation learned to love Mexican food eating out but don't know how to cook it at home. If you love Mexican food, Indian food, Chinese food, you can learn to cook it at home.

4. Invest modestly in the kitchen: it would be easy to blow a lot more money on the kitchen than you spend eating out, but buying a few handy items for the kitchen to make food preparation easier and faster could be money well spent. The most used appliance (apart from the fridge) in our kitchen is a $50 mixer that gets used virtually every day. No more smoothies at the mall!

5. Have a meal marathon: prepare dishes that can be frozen for future meals on the weekend, then pull them out of the freezer and eat them during the weeks that follow.

6. Daily deals: sign up for Groupon and LivingSocial to get the daily deals they offer. Be disciplined about it. Buy only the deals for the places where you'd eat anyway so that you are using the coupons to save money, not to try fancy new restaurants.

7. Check the restaurant web site: if you have a favorite restaurant, check the web site for an opportunity to sign up for special deals, coupons, etc.

8. Water vs. soda: soda you buy in the grocery store may cost as little as 1/10 of the price in a restaurant. Drink soda at home and drink water in a restaurant.

9. Specials: there are two sorts of specials in restaurants—good ones and bad ones. The good ones are often regular menu items discounted (the good ones). The bad ones are dishes the chef thought it would be nice to try that are often more expensive than other menu options. Watch out for those when you're dining on a budget.

10. Pass the valet: whenever possible, pass the valet and park your car yourself. Save your money for the food!

By dining out less often and with a keen eye on the budget, you can still enjoy the experience without burning so much money each month.

How Spending Cash Can Save You Money!

One easy way to control spending on discretionary, personal items is to give yourself an allowance, just like a twelve-year-old, in cash. Then, when it's gone, it's gone.

The following guidelines will help make this principle effective for controlling spending.

1. Define what the money is for and what it does and doesn't cover. For instance, you may decide that your allowance covers lunch but not dinner or snacks at the movies but not the theater tickets. Presumably, you'll use a debit card or credit card (or write a check —does anyone still do that?) for expenses not covered by your allowance. You have to be honest with yourself about this and with your spouse! You don't want to have a fight mid-month when the cash runs out over what you spent it on.

2. Define uses of cash narrowly. If you decide to use cash for a variety of purposes, you'll have a much more difficult time tracking where your money goes. Credit cards seem to offer the best electronic tracking of purchases and are typically reported in real time. If you try to keep track of your cash, you'll find your wallet fills up with receipts in a big hurry.

3. Define the time period that the cash covers. Depending on the convenience of getting to the ATM (and whether you have to pay a fee there) you'll want to decide how often you'll go pull out some cash for your allowance. Your rule should be easy to use, for instance, once each month on the same day, twice monthly on the 1st and 16th, or every Monday morning. Design a rule that will work for you.

4. Strictly avoid using cash for things it was not intended to cover. If you've decided your allowance money doesn't cover dinners with your spouse, when you're out with him for dinner, use your card to pay for dinner. If something comes up where you are forced to use some of your precious cash for something outside the plan, keep the receipt and pull out some extra money for that purpose.

5. Be sure to inventory your cash periodically. If you are on a monthly plan, you'd hate to have your allowance all gone before the end of the month. Check to see what's left!

6. When you run out, stop spending. If that means taking a sack lunch to work for a few days at the end of a month, so be it. Allow yourself to suffer the natural consequences of over spending.

7. Feel free to treat yourself with the surplus at the end of the month. If you do a good job and have money left over, reward your discipline with a treat, whether that is an ice cream cone or a new top at the Gap, enjoy your just reward.

Finding ways to limit spending and to develop self-discipline will empower you to save more and build a future for yourself that is safe and secure.

I Wanna Get Rich Quick. How Do I?

The art of getting rick quick can be summarized with one word: luck. The key to getting rich quick is, in many cases, to do the opposite of what you should do if your goal is to retire at 65 or 70 with plans to golf three days each week. To get rich quick, you need to start by ignoring your family, your community and your faith and instead focus entirely on yourself. Ready?

Here are the surefire ways to get rich quick:

1. *Quit your job today*. If you stay at your job it may take the rest of your career to accumulate a million dollars—if you ever do. Start your quest for instant wealth by walking out the door. Never mind the bridges you'll burn, you're going to be rich, quick! Whatever you do, don't stay at your job for the next 30 years contributing to your 401k—that surefire way to wealth will take too long.

2. *Go to Vegas and bet it all*. If you are serious about getting rich fast, head to the nearest casino and gamble until you have achieved wealth. Of course, you understand that it is almost certain that you'll lose all of your money, but if you don't bet it all right now, you can't get rich quick. Whatever you do, don't put the gambling money in the bank where it will earn interest at a lower rate than 1%.

3. *Bet all of your money on one stock*. If you don't want to go to Vegas to gamble, you can put all of your money on one risky stock. Perhaps it will rise tenfold this year. It's happened before. Of course, it's equally likely to go bankrupt as to rise so much. The most likely thing is that it will go up or down a little and you won't be rich quickly at all. You absolutely don't want to diversify your portfolio with a dozen or more stocks to eliminate the risk of one filing bankruptcy because that eliminates the benefit of one going up tenfold. More than anything, you don't want to invest in well-researched collection of mutual funds run by professional managers. The way they work, it could take 30 years of prudent saving and investing to get rich. That's clearly not for you.

4. *Forgets stocks, invest in options*. If you are serious about getting rich quickly, you can use the leverage of options to make your gains even bigger. Options give you the right, but not the obligation to buy (or sell) the underlying stock (or bond, or commodity contract). With a few thousand dollars you can buy options potentially worth a million dollars if just the right, highly unlikely thing occurs. Of course, that means that almost certainly you'll have lost all of your money on your first investment. But it will have been lots of fun. Of course, you would never want to build your investment portfolio of plain old ordinary mutual funds that can reasonably be expected to appreciate in value consistently over the next thirty years. You don't have the patience for that.

5. *Not a financier, try entrepreneurship*. Entrepreneurs are heroes. They're cool. They're sexy. Take all of your money, call yourself an entrepreneur and then think of a business. It's easy. Never mind that most businesses fail. Ignore the fact that businesses built around the simple premise of making money quickly fail faster than average. The last thing you'd want to do if your goal is to get rich quick, would be to carefully build a team around you that includes people who are generally smarter, older and more experienced who could help you launch a business. Whatever you do, if you want to get rich quick, don't start a business that you actually care about, where you'd want to work for the next

30 years. That sounds an awful lot like having a job, working hard and waiting a long time to actually become rich.

If none of these strategies sound good to you, perhaps it's because you don't really want to get rich quick. Maybe what you really want is to put your family first, to build a career based on integrity, to buy a home where you can raise your children, and to partner with your spouse in the greatest effort in life: to plan to spend quality time with your grandchildren.

Don’t Walk On The Heels Of Your Shoes And Seven Other Tips For Taking Care Of Your Stuff

Long ago I remember hearing some great counsel: don’t walk on the heels of your shoes. It was not only a specific direction for how to make sure your shoes last for a long time, but it was (and was intended to be) a metaphor suggesting the need to care for all of our stuff.

Stuff isn’t as important as people or our relationships with people, but if we care for and respect our stuff, we’ll have to replace it less often, which is both good for the environment and for our wallets. So here are some other tips in the spirit of not walking on the backs of your shoes.

1. *Wash your car regularly*. By washing your car, you’ll be more comfortable in it, making it seem more appropriate to get it serviced and cared for in a timely way. By making your car last a long time, you empower yourself to really save.

2. *Keep your yard neatly trimmed and clean*. Not only will your neighbors thank you, but you are likely to identify potential problems with bug infestations, sprinkler problems, even problems with the exterior of the house if you are out in the yard regularly mowing the lawn and trimming the bushes.

3. *Teach the kids to care for their toys*. Not only are bicycles and skateboards left in the front yard an eye-sore, they are a mighty temptation for the neighborhood punks who might somehow find it amusing to ride a six-year-old girl’s bike into the nearest river or watch it bounce down a nearby hillside.

4. *Repurpose and repair clothes*. When one child grows out of something, with any luck there is a sibling who can get some use from it. When buttons fall off, replace them. When a dress shirt gets a stain or the cuffs become too warn for the office, a yard-work and painting shirt has been born.

5. *Keep your house clean*. Having a few things out of place is a great reminder that a family lives in the house and that’s what makes it a home. On the other hand, if you can’t find the vacuum and there is stuff growing in the fridge and the shower, you are wasting money. Everything in your home will last longer if it is clean, not only because the dirt, mold and mildew will ruin it, but you and the other people in the home will not respect the things that are dirty.

6. *Give away the stuff you don’t need*. If you haven’t worn that sweater in two years, chances are you won’t. Give it away. There are great charitable thrift stores in virtually every city in America. Periodically purge your closets, basement and garage to ensure that you aren’t accumulating things that you don’t need and use. Having unused “junk” laying around the house will create an atmosphere that disrespects and cheapens your belongings.

When Renting Rather Than Owning Makes Sense

For homes and cars, it generally makes more financial sense to buy them rather than rent them—over the long haul. Many rent-to-own programs help families double or triple the amount of money they need to spend on a computers, furniture, televisions and other home furnishing. Saving for and purchasing for cash your computers, furniture and televisions is much wiser than using a rent to own program. But sometimes renting makes sense.

Here are some examples.

1. *Boats*: Unless you live where you can boat every week and you're sure you will boat regularly, it makes a lot of sense to rent a boat for a day or a week every year rather than buying a boat to display proudly in your driveway 355 days each year.

2. *Motor homes*: Unless you are going to live in your motor home (and if you do, I'm a little jealous—my wife won't let me) you should think about renting one for your vacation rather than buying one and parking it for all but a few weeks each year.

3. *ATVs*: Unless you live in a rural area where you can—or need—to ride your ATV almost every day, it makes more sense to rent them once or twice a year for a weekend than to have them filling the garage, decorating the driveway or paying even more to have them stored off-site.

4. *Hotel rooms, condos*: For most people with average incomes, it makes much more sense to rent a few nights in a hotel or a vacation condo than to buy a time share. Those who have purchased and enjoyed time shares in my experience are folks with the money and time to travel extensively and take advantage of all of the expensive privileges. For the rest of us, it's simply wiser to rent a few nights here and there.

There are two general rules that can guide you in making your rent v. buy decision. You may more reasonably consider a purchase if either of these conditions is true.

1. *Frequency of use*: If you reasonably plan to use an item frequently, the way you use your home, your car and your favorite socks, buying is likely much cheaper per use and much cheaper over time than renting each time. If you will only use it occasionally, you may be better off renting. To find out, rent it a few times before you decide to buy to make sure you want it and will use it as much as you hope.

2. *Appreciation v*. Depreciation: If the thing you'd like to buy is reasonably likely to appreciate—like a condo on the beach in Hawaii—it makes more sense to buy it than if it will depreciate like a car. You may only visit your condo in Hawaii once a year, but if it is going up in value and not costing a lot when you're not there (and you have the resources to buy it for cash) it is hard to argue against the purchase.

Owning stuff provides a certain satisfaction. We're proud of the things we own. But there are some things that it makes no sense to own. We can rent them instead and save thousands of dollars each year that we can use to buy things that it would actually make sense to buy.

I Just Got A 10% Raise; What Should I Do With The Money?

Knowing what to do with a raise may determine whether or not it even mattered. If all you do with a raise is to spend more money on eating out and entertainment, it won't matter much to your family in the long run that you even got the raise. Being strategic with the money can have a big impact on your family's lifestyle in the long run.

Consider which of these circumstances best describes your situation and follow the guidance to get the most out of your raise.

1. *Awash in debt*: if you can barely make ends meet each month because you're over extended, with credit card debt, car loans and maybe even a payday loan or two that are eating away at every penny you bring home. Put the money from the raise toward the smallest debts—probably the payday loans—to quickly reduce the monthly outflow for debt payments.

2. *Barely scraping by*: if you've been frugal forever and have successfully stayed out of debt, but you haven't accumulated much and don't own a home, now is a great time to put your focus on buying a home. Put the raise toward a savings account for a down payment and get serious about putting your family in a stable, permanent situation.

3. *House poor*: if you just bought a home and haven't been able to do much else and haven't even been contributing to your 401k or saving for your kids' college, now is the time to start contributing to the 401k and/or saving for your children's college education.

4. *Still driving the clunker*: if you've been driving the same car for a decade it would be tempting to run out and buy a brand new car on credit. The dealer will make it easy for you. Don't fall into that temptation. Save for six months, take the cash plus the clunker and upgrade to a car you'll be happy to drive for a few more years while you continue saving for a car you'll really be excited to drive. Make your car payment to yourself!

5. *On top of the world*: if you have everything under control, the cars are paid for, retirement savings and college savings are on track, consider how you can do some good with the money. When you have been blessed it is your great opportunity to become a blessing to others.

While none of these situations may describe yours perfectly, you may be able to get some ideas about how to use your raise. Making decisions that will benefit your family in the long run will ultimately bring the greatest happiness. A few extra basketball games or dinners at Applebee's won't provide stability that helps families build for the future. You want your kids to grow up in a stable home, get good grades, go to college and become healthy adults, grateful to their parents for the sacrifices they've made. Envision the future you really want and then go build it.

Making Christmas Meaningful on a Budget

Christmas shouldn't be all about presents, but in our modern culture, some people only know Christmas for gift giving. Throughout much of Asia, Christmas is celebrated enthusiastically. Christmas carols are played around China, where I lived for a year in 2011-2012, but no one there knows what the holiday originally celebrated. For many people, there is no meaning in Christmas.

If you are in a position where Christmas needs to be more modest than in the past, there is something you can do. If only so you can avoid the holiday credit card hangover, you can remake Christmas this year to be less expensive and more meaningful. By making Christmas more about giving than getting, you can save money and have a happier holiday.

Consider this plan to help you enjoy the Christmas season in a whole new way:

1. *Plan as a family*. As the holidays approach, gather the family and discuss your desire to have a more meaningful Christmas—one that won't cost as much. Have everyone in the family contribute to a discussion about how you can do something kind for a significantly less fortunate family. You may want to discuss a one-time service project for a family you know, an evening serving meals at the homeless shelter during the Christmas season, or perhaps a twelve-days of Christmas anonymous surprise for a family in your neighborhood.

2. *Involve everyone in service*. Be sure to involve everyone in the family in doing the service. Youngest to oldest, everyone should participate. By including everyone in the plan, you can help each one of your children reframe the holiday season.

3. *Be enthusiastic*. As you plan, organize and execute your holiday service, do it with gusto. Behave as if you, personally, are enjoying every minute. Don't ever give your children the impression that the service you're doing is a chore or a bother to you. Anticipate joy and you will experience joy. If your children see you happy about this, they will catch the spirit of it as well.

4. *Shop modestly*. As you do your Christmas shopping, cut back from past years. Focus on buying the things that your children will need, like new clothes. Work strategically to acquire only things that your family will truly appreciate.

5. *Don't surprise them*. If you are cutting back significantly on the Christmas shopping budget this year, don't let your kids find out Christmas morning. Make sure that they understand that your service activity is related to cutting back on the extravagant Christmas spending.

6. *Share your faith*. Whatever your faith, share it with your children at Christmastime. Help them to understand your worldview. Give them the gift of your faith. They'll never forget the lessons you teach them.

By framing your holiday with service to people who are truly less fortunate, you've given meaning to the holiday and satisfaction to your children, regardless of the scope or scale of what's under the tree. You can, with less money, give your kids a happier and more meaningful holiday.

Tracking your spending empowers you

It doesn't matter how you do it, but if you carefully track your spending and savings you'll likely improve your results. There is an old adage in management theory: what gets measured gets done and what gets measured and reported gets done better.

If you carefully track your spending, it will allow you see how you're spending your money and make strategic changes. Consider the following examples:

1. *Credit card statements are not a substitute*. Reviewing your credit card statements when they come is wise for a variety of reasons, including detecting fraud, but it isn't a substitute for carefully tracking your spending by category. Just reviewing the statements won't tell you how much you've spent dining out or on your favorite hobbies (even if the card statement can separate restaurant charges from grocery stores, it can't tell whether you bought a new drive, a bag of groceries or baby clothes at Walmart).

2. *Much of our spending is discretionary*. Because we make choices about most of our spending each month, it is important to track it. We make hundreds of purchase decisions each month. Without tracking our spending, we have no practical way of knowing whether we've overspent in one area or not. This is especially true for the categories of spending that are the most flexible, like entertainment and dining out.

3. *Income and spending is divided*. The problem is compounded for families because there may be several people both earning money and spending it. How will you know what your spouse spent if you're not tracking the spending and sharing the data?

4. *Real time reporting is better than periodic reviews*. The closer you can get to tracking spending as it happens the better. Optimally, you'd be able to update the reports daily so your spending for the 20th day of the month is guided by knowing what was spent the first 19 days. Even monthly reporting is better than nothing because understanding where you overspent last month can help bring spending under control next month.

5. *Technology makes it easy*. In this electronic world where much of your spending is being tracked by others anyway, it is relatively easy to track your own spending. Mint.com provides on-line software that tracks all of your spending in real time at no charge. You can customize reporting and planning tools to make everything simple and easy. Quicken also offers software, which you can download for a fee, with more robust capabilities and that can download data from the internet in real time to help you track your spending.

6. *Tracking spending may lead to budgeting*. Even if you never set up a formal budget, if you track your spending carefully and regularly, you'll begin to adjust your spending to fit your long term goals. Eventually, tracking your spending guides your spending, having the effect of a budget and empowering you to accomplish what you want with your money.

Spending is easier and more natural than saving. If you want to do more of the latter and less of the former, tracking your spending is a powerful way to take control of finances. With today's technology, it is almost effortless and it's free. Just a few hours each month can help you take control.

Seven Ways Your Family Can Be Doubly "Eco" Minded (Economically and Ecologically)

There is growing social pressure on all of us to do our part for the environment, but some of the pressure we feel conflicts with the economic pressure on our families. Here are some ideas that are both ecologically and economically friendly.

1. Reuse and repurpose everything possible. Your younger children should certainly have some new things, but hand-me-downs from older siblings are a great tradition that families have used for generations. Before throwing just about anything in the trash or even in the recycle bin, consider for just a moment if there isn't another immediate use for that item—especially one that would allow you to avoid making a purchase. But, don't save junk on spec! That's a recipe for hording!

2. Donate your used stuff to a thrift store like Goodwill so that it doesn't end up in the landfill and you're not paying to store stuff you don't use. If you're honest with yourself, you'll find a lot of stuff in your home that you never ever use. Don't blow it by filling the space with new junk—just enjoy the openness created by having less clutter around the house, fewer shirts in the drawers and toys that have all been outgrown.

3. Sell your valuable old stuff on eBay or Craigslist (use the former for things that you can easily ship and the latter for things that would be expensive or difficult to ship).

4. Walk to the grocery store. Not only will it save on gas and protect the environment, but you'll find you can't carry nearly as much, forcing you to make wise decisions in the store. If you have lots of kids or live too far from the store, try organizing your errands carefully to cut down on the miles you drive.

5. Buy groceries in bulk (if you'll eat them). Buying in bulk not only tends to cut the cost per unit down, but often results in less packaging per unit, reducing the landfill pressure. A big jar of peanut butter, for instance, may cost half as much per ounce as the small jar. In the landfill or in the recycling process, the one big jar will end up doing less damage than the set of smaller jars required for an equivalent amount of peanut butter.

6. Use Skype or a Hangout on Google+ to see far away friends and family instead of going to see them. (You can do this for business, too.) The energy saved by avoiding travel can be huge!

7. Take a train instead of a plane. Be careful, it isn't always cheaper, and in the U.S. it is rarely faster, but a train ride could be a real adventure and is much greener than air travel.

There are lots more ways to be green and cheap. What do you suggest?

Eight Tips for Looking Great on a Budget

Looking great on a budget takes time and patience, but you can do it. Here are some tips to help:

1. *Have a budget*! You can't seriously talk about looking good on a budget if you don't have a budget. Know how much you'll spend on clothes each year, plan your spending carefully to get the most from it and stick to your limit.

2. *Buy clothes that fit*. No one looks good in clothes that are too small—or way too big for that matter, though that is rarely a problem. Generally, it costs no more to buy clothes in the right size than to buy clothes a size or two too small. Clothes that are the right size will last longer. Don't buy clothes that are too small as an incentive to lose weight. Buy clothes that fit as a reward for losing weight!

3. *Shop seasonal sales*. Nordstrom, famous for great clothes and high prices has two sales each year for women and kids, two separate sales for men, and one for everyone each year. If you need to look professional for work, save your money for these sales. Many other fine stores also have sales with big discounts on a scheduled basis. Check the web sites for detail.

4. *Buy a few nice things*. For work, church and other occasions when you want to look your best, buy a few nice articles of clothing rather than having lots of things from discount stores. The higher quality clothes should last longer and make you look better than having lots of outfits from discount stores.

5. *Buy versatile clothes*. Don't buy any item of clothing that you can only wear with one outfit; look for clothes that you can mix and match. Five shirts and five pants that you can wear only in match sets give you five outfits. Five shirts and five pants that you can wear interchangeably will give you 25 outfits.

6. *Take care of your clothes*. You don't need expensive furniture and cedar wood hangers for your clothes, but they shouldn't be tossed in piles on the floor. Wash, fold and hang your clothes so you can see what you have, find what you want and protect it all.

7. *Two words: machine washable.* If you build your wardrobe around clothes you can wash and dry at home, you'll typically spend less on the clothes, and much less on caring for them. You'll also avoid the temptation to wear the dry clean only clothes too often (showing up to work in a wrinkled suit with ketchup stains—not good).

8. *Shop thrift stores and consignment shops*. Don't buy anything in a thrift store you won't wear; you're just wasting your money. You can often find clothes for about 20% of the retail price in thrift stores, saving you 80%. Remember, once you wear the clothes you buy new in a department store, they're used, too.

Everyone can look good on a budget. You can also choose to spend a fortune and not look good. Follow these tips and you'll always be pleased with your look and proud of your wallet.

Saving money on groceries won't always save money in the long run

A family's grocery budget represents a meaningful part of the monthly budget. Efforts to save money should include a thoughtful review of spending on groceries, but there are some traps. Some of the healthiest foods are more expensive than some of the least healthy; in the long run, poor health will cost your family more than a healthy diet.

Consider the following:

Obesity: WebMD describes obesity as an "astronomical" epidemic. The resulting costs far outweigh any savings on groceries. Nearly one third of American adults are obese and about half that proportion of children and teens are overweight.

Diabetes is epidemic in America with nearly 26 million people (7 million of whom are undiagnosed) and is increasing around the world. More than 90% of cases are Type 2, which is "can be prevented through healthy food choices, physical activity, and weight loss," according to the Centers for Disease Control. Diabetes care can be extremely expensive. More importantly, the impact of the disease on individuals and their families can be devastating; complications from diabetes include blindness and amputations.

Here are some tips to help you feed your family a healthy diet; they'll save you money in the long run:

1. Skim Milk: skim milk has no empty calories, according to the U.S. Department of Agriculture; serve that as alternative to whole milk or even 2%.

2. Extra Lean Ground Beef: extra lean ground beef also has no empty calories; regular ground beef gets about one quarter of its calories from fat.

3. Skinless Chicken Breast: A skinless chicken breast has no empty calories. Battered and fried chicken wings get almost 80 percent of their calories from fat.

4. Wheat Bread: Wheat bread, which should be a staple in virtually every home, has no empty calories; a croissant has almost 50 percent empty calories.

5. Junk Drinks: soda pop, beer, wine and distilled spirits all provide no nutritional value for their calories. Money spent here is simply wasted.

6. Toppings: Butter, margarine, cream cheese and whipped toppings are almost completely empty calories.

7. Water: water from the tap in America is generally safe to drink, virtually free and is the healthiest option for most people.

8. Eating at Home: At home, you have the opportunity to influence your family's eating habits more than when you eat out. If you provide food they love to eat at home, you can save money by eating out less. If it's healthy food at home, you'll save more money in the long run.

By spending your grocery dollars wisely to buy healthier foods for your family, you can protect them from obesity and type 2 diabetes. You can also save money and help to keep your family healthy by providing healthy meals at home instead of eating out.

We're not making it on two incomes; how can we make it on one?

Many families reach a point with the number of children at home that one spouse would like to stay home to care for the children or other dependents, including aging parents. If you are in that boat and trying to figure out how to make it work, consider the following:

Balance of Income: If you and your spouse earn similar amounts and one of you wants to quit, it will be difficult to make that work. Where you are sharing the financial load equally, it may be impossible for you to create an acceptable budget without both incomes. In order to make it work, the spouse who comes home may need to find a work-from-home opportunity to close the budget gaps. If one of you earns less than half of the other, less than one-third of the total household income, you can make it work more easily than you might think.

Natural Helps: There are a few natural helps that will emerge. The obvious natural help is likely motivating your desire to make the change—day care costs will be eliminated. In addition, the taxes on the income that goes away will likely be larger than you expect. The marginal tax rate on that income is likely higher than the effective tax rate on your combined income, meaning that you'll pay less tax on the income you keep than you may be expecting.

Cutting Back on Cars: You'll need to make some other decisions to make your situation work. With two jobs, you have likely maintained two cars. Perhaps two nice cars. You may need to sell one of the cars. Cars eat up more money than you realize. Especially newer cars. Because they get good gas mileage and don't have to go to the shop very often you may think of the newer car as the cheap one. The depreciation is silently eating you out of house and home. The insurance on the newer car is more than the insurance on an older car—it would cost more to replace. Look carefully at your cars to determine if one can go, and if so, which one should go. If you can get rid of a car payment, that will go a long way toward closing your budget gap.

Discretionary Spending: Look at your discretionary spending patterns. If you have been living right up against it every month, there may not be much there to cut, but if you just think you've been frugal, a thorough review may reveal opportunities to reduce spending.

College Savings: It may seem ironic to stay home with kids and have to decide to reduce your college savings each month, but in the long run your kids may be much happier to have a parent at home than to have a bigger college fund. The difference between a local college experience and going to an elite private school is primarily tuition and secondarily the fun of being away from home. There may be little surprisingly little difference in the value of the education.

Retirement Savings: If you've been saving well for retirement, the money you have in savings will continue to compound. If you need to cut back on retirement savings, do your best not to stop altogether. A little something will compound over the years much more than nothing!

Your Home: Moving is an expensive adjustment to make and should only be considered in extreme circumstances. If you really were struggling to make ends meet before

because you are “house poor,” that is your budget is tight because you bought a home you could barely afford, it may be the only way to make things work with one income. You can raise a healthy family just as well in 2,000 square feet as you can in 4,000 square feet. The kids may even thank you for not having so many chores to do on the weekends. But don’t move unless you are really going to downsize significantly—otherwise the cost of the move will overwhelm the financial benefits from a smaller home and mortgage.

If you work at it seriously, you can almost certainly find a way to make life work on one income. Almost certainly, someone you know is living the lifestyle you want with one parent at home and one at work, living on the exact income you’ll have. Watch and learn.

What Does It Mean To Be "Tax Deductible" And Why Does It Matter?

As you go through life, you'll often hear references to things being "tax deductible." All kinds of different things are. Understanding what is tax deductible could save you hundreds or even thousands of dollars each year.

Being tax deductible means that you can deduct the expense (a charitable gift, your mortgage interest, business expenses, etc.) from your income on your tax return. If you give $100 to charity, that will not reduce your taxes by $100. It will reduce your taxable income by $100. If your marginal tax rate is 28% then you would save $28 on your taxes by donating $100—under certain circumstances. Many Americans have an effective tax rate of zero so a tax deduction is of no value.

Consider the following examples to illustrate how tax deductions work.

Charitable Contributions: A donation to charity is deductible (subject to some limitations that rarely apply) so long as your total deductions for medical care, mortgage interest, and charitable contributions (along with a few other categories) total more than the standard deduction ($12,750 for 2011 for most married couples filing jointly). In other words, if your total mortgage interest, charitable donations and other eligible expenses total less than $12,750 for most couples, there is no benefit to having tax deductible expenses.

Mortgage Interest: Mortgage interest on your primary residence works just like charitable contributions to offset income if the sum of eligible deductions exceeds the standard deduction. Interest on a second home is generally not deductible. Mortgage interest on investment property is deductible on another form; it isn't impacted by the standard deduction threshold.

Medical Expenses: Medical expenses are only deductible to the extent that they are more than 7.5% of your income; you can only deduct the portion that exceeds 7.5%. They, together with charitable contributions and mortgage interest must exceed the standard deduction in order to be deductible.

Business Expenses: If you have a small business you may deduct customary business expenses on your tax return. If you run a day care center in your home, for instance, you may be able to deduct food and other supplies used by the children in your care against the income you generate with the business. Under some circumstances, you can deduct depreciation on the space in your home devoted exclusively to the business. If the business loses money, you may be able to offset other income with the business losses (this won't work if the IRS thinks your business is a hobby).

Understanding these basic concepts won't make it easy for you to file your own tax return—especially if you have a business. Knowing how tax deductions work, however, may help you to make better spending decisions during the year. If you are in a situation where you can deduct your charitable contributions, for instance, you now understand that charitable contributions are effectively cheaper for you because of the tax savings.

Before you file your tax return, seek help form an experienced CPA.

Nine Tips For Selling Your Valuable "Junk" Online

For most household items that you can no longer use but that have some useful life remaining, donating them to charitable organization like a homeless shelter or thrift store can be much easier. For your valuable goods, however, you may want to take the time and effort to sell them online.

Here are some tips to help you maximize the sales proceeds for the items you sell:

1. *Pricing*: Before you sell it, look carefully for similar items for sale to determine what the fair and reasonable price is.

2. *Big Items:* If it is too big to ship, carry or move easily (like an old sofa or a bed) Craigslist.org works great. It is an online local classified advertising that is free for most listings. It is easy to use. (I generally price things low to get someone with a pickup truck to show up quickly with a friend to haul my old stuff away, saving me the trouble.)

3. *Shipping Efficient Items:* If your item is small and light enough to ship efficiently and especially if it is unlikely to break in transit, you can try eBay. eBay listings give you national and international reach for things that you can ship. What you can ship may surprise you.

4. *Cars:* There is quite a market for cars on eBay. If your car could be considered rare or collectible, you should certainly consider selling your car on eBay. If your car has graduated to clunker status, just trading it in may be your best bet. You can also list cars for sale on Craigslist.org (cheaper and easier than eBay).

5. *Free Stuff:* If you're like me, there are some things that are so big and ugly you'd give them to anyone who'd show up to haul it away. You can list such things at Craigslist.org or Freecycle.org.

6. *eBay:* Because eBay tracks feedback and allows both buyers and sellers to rate one another, it is a good idea to buy a few things on-line before you try to sell something so that you can validate your good name. Buy cheap things; pay promptly. Request feedback if none is provided automatically. Give the seller feedback. Then, sell your least valuable things first and work up to something like a car where feedback would be key.

7. *Craigslist:* Craigslist is not eBay. There is no feedback mechanism. Do not accept anything other than cold, hard cash as payment from anyone from Craigslist. Ever. Do not hold things for Craigslist buyers; chances are very good you'd hold them forever. Tell everyone the same thing—the first one to show up with the cash gets the goods.

8. *Good photos:* Whether you are selling an item on Craigslist or eBay, you need good photos. You can get great photos with a cheap camera if you have great light. Try taking photos with and without flash, inside and outside and then choose the photos with the truest colors and the sharpest focus.

9. *Don't Lie:* Don't ever lie about your stuff. The cultural ethic on eBay will punish fibbers harshly. Provide complete and accurate descriptions of your stuff to avoid negative feedback. Remember, on Craigslist, someone who lives in your town will come to your home to give you cash; you'd hate to make a big guy with a pickup truck and a big friend mad because you weren't honest about your stuff.

You can quickly and easily sell your old stuff on-line, converting old junk into cash. You can’t retire on the proceeds, but selling old junk for cash sure beats renting a storage unit for it!

16 Tips to Help You Spend Less Than You Earn

Everyone understands the goal of living within their means, spending less than they earn and saving for a rainy day. Most people don't do it. Here are some simple tips to help you break the pattern:

1) Live in a neighborhood where most people make a little less than you do so you won't feel so much pressure to spend.

2) Contribute to your 401k at work so you don't have a chance to spend the money you're saving.

3) Use Mint.com, the free on-line budgeting system, to track your spending and help you manage your financial goals. (Don't like Mint.com? Try another system.)

4) Give yourself an allowance for discretionary spending—in cash. When the cash is gone, stop spending—no credit cards!

5) Don't shop when you don't have money left in your budget; build your willpower by staying away.

6) Proudly drive the old car you've got and take care of it so it will last a long time. It may be that nothing hurts a budget more than buying a new car.

7) Walk to do errands that can be done by foot—stop laughing at yourself for driving two blocks for this or three blocks for that.

9) Eat out less; eat in more.

10) Have a meal preparation marathon once or twice a month, preparing meals in bulk that can be frozen and reheated later, saving money and time.

11) Look for cheaper hobbies or cheaper ways to enjoy the hobbies you have. Running is cheaper than biking (no bike, less gear). Golfing at the municipal course is cheaper than at the club.

12) Use coupons, watch sales, and shop smart to buy the things you need.

13) Don't buy things you don't need that don't fit in your budget no matter how good the sale, no matter how big the discount! Define for yourself the difference between a "need" and a "want."

14) Engage the entire family. Let everyone be a part of the plan to save money; everyone will benefit so let everyone share the sacrifice.

15) Don't use credit cards, pay-day loans or other borrowed money to close the gaps in each paycheck. Borrowing will only make the next paycheck cycle harder.

16) Look for substitutes in the grocery store that save big dollars each month, but won't impact your pleasure much. Think two-liter bottles of soda instead of cans, store brand products instead of the name brands. You end up with the same food and the same pleasure, but at a lower cost.

Applying even a handful of these ideas consistently, over time will have a big impact on your budget.

How to Use Mint.com to Help Control Your Spending

Perhaps you've heard of Mint.com or maybe you're just hearing of it now, but in either case you're looking for help in controlling your spending.

Think of this as a quick, step by step guide to getting instant help with knowing where your money is going in real time! Wouldn't it be great to get an email when you've spent your limit for the month on meals and entertainment? Mint can do just that!

Let's get started:

1. Go to www.mint.com.

2. Complete the quick sign up process—it's free.

3. You'll then be prompted to set up all of your accounts. This will take a few minutes, but if you already do your banking and manage your credit cards on line, this should only take about one minute for each account. Mint.com will be doing the work before you know it.

4. Click on "Transactions" on the menu, which will display a list of your transactions going back about 90 days.

5. Sort by "category" by clicking on the column header for category.

6. Now, skim over the transactions looking for category errors. The big problems will be that many are labeled as "uncategorized." Mint.com does this when it can't figure out how to assign a category to a transaction. Depending on the number of transactions, this can take a while the first time. If you check back with Mint.com at least once a week (better daily) you'll find it is no trouble at all to check and correct categories.

7. OK, click on "Budgets" to review suggested budgets for your discretionary spending. Mint.com makes budgeting easy and doesn't require you to budget for every single category. It will prompt you to focus on your discretionary spending areas—those categories where you have the most control.

8. Just hover the mouse over each budget category and you can nudge the budget up or down to put it where you want it. When you exceed the limit, you'll get an email from Mint.com alerting you. Hope that email doesn't come before the middle of the month—that can make for a long few weeks trying to spend zero on, say, fast food for the last half of the month.

9. Next, click on "Goals" in the menu. You'll be presented with a variety of goal templates, choose one to get started (if none of the canned goal templates fit your goal, click "Custom Goal."

10. Follow the interview to set up your goal. In just a few moments, Mint.com will help you figure out how much you need to reach your goal, how much you'll need to save each month and where to put the money you save!

11. Alright, click "Trends" on the menu and you can view graphs of your spending by category or over time. The longer you keep your information accurate, the more valuable the data becomes.

In just one hour, you can go from Mint.com neophyte to Mint.com mogul. If you don't like it, you can try Quicken, which is software you install on your computer that is more powerful and, unlike Mint.com, it isn't free.

Buy This, Not That! 16 Examples of Money Saving Tradeoffs

Every day we face purchase decisions that at the end of the month we'll have to face in the form of a bank statement reminding us of how little money is left. Here are some ideas to help you spend less:

1. Buy cell phone service from a prepay vendor like Virgin Mobile rather than one of the big two cell phone providers who charge twice as much for the privilege of paying 30 days later.

2. Buy a $5 bucket of balls at the driving range rather than $300 on a new driver—it may have the same effect on your game.

3. Buy the store brand rather than the national brand (after you double check the price to be sure you actually save money).

4. Buy a bag of old school popcorn you pop on the stove or in a popcorn popper instead of microwave popcorn.

5. Go see the last matinee of the day and have dinner afterward rather than having dinner before the movie and then paying full price for the evening showing.

6. Better still, rent the DVD and fix a nice dinner at home rather than seeing the movie in the theater and eating out.

7. Buy a $199 Google Nexus instead of a $499 iPad. Don't let anyone tell you you're not cool enough.

8. Read ebooks rather than print books; many ebooks are available for free!

9. Golf municipal courses rather than private courses.

10. Run instead of riding a bike for fun and exercise—it's much cheaper.

11. Buy a car that is a year or two old rather than a new one (be sure to keep it as long as you would have kept the new one to get the full benefit).

12. Buy your designer clothes in consignment shops not department stores.

13. Buy what you need but don't want (a purple tie for your brother's wedding) at a thrift store when you can.

14. Buy the McDouble off the dollar menu rather than a Quarter Pounder with Cheese; you get almost the same taste, fat, calories and cholesterol for less than half the price!

15. Drink water in restaurants where soda is grossly overpriced and drink soda at home from two-liter bottles you buy for a buck on sale at the grocery store.

16. Buy a few nice clothes for work rather than piles of new cheap clothes; your boss and your colleagues won't care that you look familiar in your favorite outfit if you look nice and clean.

Ten Ways to Feel Richer by Wanting Less

No matter how much money we have, it never seems to be enough. This is true for the wealthiest people I know in the same way that it is true for most average folks. One thing I've seen, however, is that a few people are happy with what they have and as a result they manage it better. Those who are so focused on keeping up with the Joneses tend to frustrate their financial futures by buying too much stuff and spending too much on fancy vacations.

Here are some tips to help you live life wanting less and enjoying what you have a lot more!

1. Volunteer in a food pantry or homeless shelter where you will have the opportunity to interact with people who have a lot less than you.

2. Don't ever move to a neighborhood where most of your neighbors have more money, drive nicer cars, travel to more exotic places for vacation and wear nicer clothes than you do.

3. Seek out friends who have less money than you have, who'll be happy to go to dinner at less expensive restaurants, who'll want to catch a matinee with you rather than pay full price for a movie.

4. Take good care of the things you have so that you don't feel so much pressure to replace them, especially your car(s).

5. Make regular contributions to your savings account and focus on the progress you're making there so you are less distracted by fake savings opportunities in department stores—buying something you don't need at 20% off is an 80% waste of money.

6. Donate some of your hard-earned money to a cause that you are passionate about to help put your discretionary spending into a different context (think Oskar Schindler slowly evaporating his wealth to save his Jewish friends—though you don't have to give away all of your money to gain a greater appreciation for what you do have).

7. Join an organization that includes people from all walks of life, including some who have much less than you; you'll find that you don't feel nearly so much pressure to pull up to an event with a diverse group of people in a brand new car if some of the folks in the group don't even own cars.

8. When you buy a home, have two goals in mind: find a home where you can live "forever" and that you can easily afford so you won't be immediately tempted to move and so your home doesn't make you feel so poor.

9. Walk somewhere you normally drive (especially if the round trip is less than a mile) to save money and remind you what a luxury your car really is—most of the people in the world don't own cars.

10. Plan your next vacation as a service vacation, building homes for Habitat for Humanity or, if you can easily afford it, in a desperately poor country on the other side of the world where you can see abject poverty, do something to relieve it, and come home with an even greater appreciation for things you have.

What You Expect May Determine Financial Contentedness

Everyone hopes to have a little more than they have now. It is human nature. Having reasonable expectations for your stage of life, for your retirement and your children's education can have a big influence on how content you feel with what you have.

Consider the following examples:

1. Your home: If your parents live in a 6,000 square foot home on a half-acre lot in a gated community and you think that you should be able to start out with the same thing, you are likely to be disappointed and frustrated. Find out where your parents had their first home. Go see it if you can. Adjust your expectations for what a first home should be. If your parents were both MDs and you're a school teacher married to an artist just launching a career, you may need further adjustment to your expectations. Take time to really understand what lifestyle you can afford and work to align your expectations with what's real.

2. Your car: Cars are crazy. Some people would rather own a nice car and live in a tent than drive an old clunker and have a home with a garage to park (or hide) it in. That means that you can find some unusual reference points, like the kid delivering pizzas in a BMW. You need to set your expectations for your car in the context of your personal priorities. If you want to own a home and that's a stretch, you'll probably be driving a modest car for the next several years. Own your choices and don't be ashamed to drive an affordable car.

3. Your kids' college: You may want to send your kids to college at Cornell, but Ivy League tuition isn't cheap. Even if you have an above average household income, tuition, books, room and board at an Ivy League school may be out of reach—at least without piling on the debt. On the other hand, attending a state school near home may provide a much more affordable education and one that still opens doors of opportunity. Many people have figured out that an undergraduate degree from a good state school can still qualify students for elite graduate school programs.

4. Your retirement: You may want to retire at 50 and live between the beach and the golf course in Hawaii, but unless you have extraordinary good fortune, retirement will come closer to 70 and you'll find it wise to move to a smaller home or condominium when you do. If you plan and prepare well for the reasonable retirement plan, you'll be more likely to enjoy it when it comes. If you have dreams of extraordinary luxury and an early retirement, you might coax yourself into taking investment risks that not only don't achieve the goal of providing for an early retirement, they could instead leave you without the resources to have the reasonable retirement you deserve.

As you look at your circumstances, it is healthy to aspire to have a little more, to work and save and plan for the future. You may doom yourself to a perpetual state of disappointment if you expect things to be much better than you can reasonably expect. If fortune smiles on you, it will be easy to adjust to having more money; plan and prepare for less and you'll enjoy life more.

Seven Ways Honesty Is Key to Frugal Living

You and your family would like to live more comfortably and more frugally. One of the keys to successful frugality is honesty. These are just a few specific examples.

1. **Honest with yourself**: in order to live frugally, you need to live within a budget. This requires that you are honest with yourself about your spending. You can call a haircut "groceries" but you can't feed your kids a haircut.

2. **Honest with your spouse**: successful frugality requires peace at home, which requires honesty between spouses. If you decide that you won't spend more than $100 without the approval of your spouse, you have to be honest about it and hold yourself accountable just as you will hold your spouse accountable.

3. **Honest with your employer**: earning a living is vitally important to your lifestyle. Nothing will get an employee fired faster than a breach of trust. Whether it be petty things like not working a full shift, "borrowing" office supplies, fudging on a expense report or lying about who drained the coffee pot without putting a new one on, any of these can violate a trust that leaves your job in jeopardy. Be scrupulous.

4. **Honest with creditors**: when you borrow money, you need to accept that obligation as a literal, moral obligation to repay the money—not just eventually—but on the agreed upon terms. All your obligations are tracked carefully by those whom you owe and failure to pay on time and as agreed can have long lasting and painful implications. Don't borrow money you can't afford to repay.

5. **Honest with merchants**: as you go through your day making purchases of all sorts, you demand absolute integrity and honesty from the merchants where you shop. If the price tag says $19.99, you expect to pay $19.99. If the system pulls it up at $24.99, you'll call them on the error. Let the street run both ways. If the merchant makes an error in your favor, let them know. Not because your kids are watching, or even because it's good karma. Do it because it's the right thing to do.

6. **Honest with your children**: kids have a difficult time understanding money and limits. They may not understand why you don't have $10 for milkshakes on the way to the grocery store where you'll spend $100 on groceries. Don't lie to them. Explain honestly that as a family you have to have priorities and that in order to be able to afford important things, sometimes giving up less important things is required. Honest dialog with your kids will make them your allies in saving money.

7. **Honest in reporting**: as you seek to live frugally, to save for the future and maintain a happy home, you need to measure your progress. Be honest in the preparation of your reports. Keep track of where the money goes, how much you have in savings and what your assets are worth compared to what you owe. Keep track in an honest way so that you and your spouse can use the reports to better plan and organize for the future.

Being honest with yourself and others regarding money will contribute meaningfully to having a successful home and family. Working as a family, communicating honestly with one another about money, and treating your employer and merchants with integrity will tip the scales in your favor in the long run.

29 Keys to Financial Happiness

1. Having enough money does make people happier than not having enough; having more money doesn't make people even happier.

2. The key to financial happiness may be wanting less rather than having more.

3. Don't spend more than you earn.

4. Don't be afraid of hard work.

5. A college education is imperative in today's "knowledge" economy.

6. Remember to save for the future; it will be here soon enough.

7. Teach your children the value of money; let them want something badly enough to buy it themselves.

8. Buy a house you can afford and that you'll want to live in for a long time.

9. Don't let what other people think of your car dictate what you drive; you really don't care what someone thinks who would judge your worth by the price of your car.

10. Take care of your stuff.

11. Don't be afraid of public transportation.

12. People who understand interest collect more than they pay.

13. Paying off your mortgage really is cause for celebration.

14. Credit cards are a convenient way to pay for things you want, but only if you actually have the money to pay the credit card bill.

15. Saving 20% on something you don't need is an 80% waste of money.

16. Don't torture yourself; shopping is torture when you don't have the money to buy what you want.

17. Work is supposed to be work; that's why they pay you to do it.

18. If it's not raining, you better be saving, because the rain will come.

19. You've got to work for money until you can get money to work for you; keep saving and investing.

20. Make getting out of debt something you do and not just something you dream about.

21. Stop borrowing and start saving; you'll thank yourself someday.

22. Family finances are a family affair; let everyone help to conserve and save.

23. You can be eco-wise by being environmentally friendly and economically minded.

24. You really will die without food and shelter; you really won't die without Prada.

25. A new $300 driver may not do nearly as much for your drive as a $5 bucket of balls at the driving range.

26. Quality family time can happen just as easily camping in a National Park as at Disney World; choose the vacation that fits your budget best.

27. Did you babysit, deliver papers or mow lawns as a teenager? Do your kids?

28. Don't compare your first home to the home your parents own now; compare your first home to their first home.

29. Money's only real value is the good you can do with it.

Chapter 3

Your Car is Just Transportation

Seven Tips for Buying and Driving a Car You Can Really Afford

Chances are you really can't afford the car you're driving. Most Americans spend too much on cars, reconciled that they must always have at least one and perhaps two (or more) car payments. If your car is worth more than you have in your retirement savings, you really can't afford it.

You can—and should—drive a car that doesn't require you to borrow the money. Here are some tips to help you do just that:

1. Drive the car you have now for a long time. If you are still making payments on your car, plan to keep driving it for several years after you pay it off so that you can save up for its replacement. When you replace the car, limit your purchase to your savings plus the value of your trade-in, even if that means you have to buy a used car.

2. Take care of the car you have so you don't have to buy a new one. Don't defer maintenance; take care of problems while they are small.

3. Don't try to keep up with the Joneses. It is always tempting to buy a new car, much more so when the neighbors all upgrade. Don't let your neighbors decide when you need a new car; you decide when you have the money saved and want to make that purchase.

4. Remember that virtually every car ends up in the same place: the wrecking yard. Cars are not investments. They do not build equity—even if your husband says they do. They are productive but depreciating assets. Buy a car for the utility it provides and not the style it evokes.

5. Look for a car that is affordable to own and operate. When you buy a car again someday (see number 1. above) look for a car that is affordable. Intellichoice.com provides ownership cost estimates that can help you compare the cars you're considering. Sometimes the cheapest car isn't the cheapest. Sometimes the car with the lowest sticker price isn't the car with the lowest total ownership cost. But be sure to buy a cute car you'll be happy to drive for a long time!

6. Educate yourself before you buy a car. When you buy a car be sure to educate yourself thoroughly before going to see a dealer (consider seeing multiple dealers to get the best deal). You should have a good idea about the car you want to buy, the price of the options you want and especially the factory incentives available on new cars. A number of web sites, including MSN Autos, offer this information, some for a small fee. Arm yourself so that you don't over pay for that new car.

7. The best car is no car. If you can eliminate a car from your garage by using public transportation, car sharing, walking, bicycling or carpooling, you will find yourself saving so much money you'll never want to have a car again.

I Just Paid Off My Car; Should I Trade It In Now?

Congratulations on paying off your car. There were probably days along the way when you worried the car wouldn't last as long as the loan on the car, but it made it! You have taken a huge financial step forward. Now what?

Follow this simple system and you'll never have a car payment again!

1. Keep driving the car you have now. Take care of it. You want this baby to last for years. (If you haven't told your car lately that you love her, now might be a good time.)

2. Keep making the car payment. What!?! Make the car payment into a savings account. Keep the money sacred for your next car.

3. Buy a "new" car. When the cash accumulated plus the value of your trade-in (which we know is going down every day) combine to buy you a car you'd like, one that you can drive comfortably for years to come (even if it's a used car), go ahead and buy it.

4. Don't borrow any money. When you buy your car, don't borrow any money. If your savings is only $5,000 and your trade-in is only worth $5,000 either buy a $10,000 used car or wait for your savings to accumulate a little more.

5. Keep making the car payment. What!?! I know, I said this before, but you just bought a perfectly good used car for cash and you might think you could stop making a car payment. Don't stop. Keep putting the car payment into your savings account month after month. In five years, you'll have enough to buy a very nice used car or an affordable new car.

6. Don't borrow any money. You're beginning to see the pattern, aren't you? Now that your car is paid off, you never have to have a car loan again. Just be disciplined enough not to buy a car you can't afford to buy for cash.

Let's put some numbers to this example. If your car payment was $500, you can save $12,000 in two years—plus you'll earn interest on that. If you had a five year loan on a new car, your car is likely about seven years old—still in very good shape. It may be worth $10,000. You can now purchase a car costing about $22,000. Yes, it may be a used car, but likely only a few years old. You can easily drive it for another five years. At the end of the five years, you'll have $30,000 plus interest in savings and a car worth about $10,000 as a trade in. You'll be able to purchase a car as nice—or nicer—than the one you bought five years ago—but this time for cash! Keep making your $500 per month car payment to yourself for the next seven years and the neighbors will really be impressed with the car you bring home.

Chances are, however, when you start spending your hard-earned savings for your cars instead of the bank's money, you'll find you have less interest in the fancy car and more interest in the other things you can do with the money. You have kids who want to go to college. You want to retire. Following this system will put you in financial control of your life and empower you to better provide for your family.

How To Master Money So It Doesn't Master You

Interest is relentless, whether it is working for you or against you. You can make sure that the principles of compound interest are working for you. For instance, if you invest $1,000 each month, earning only 5% interest, you will accumulate a value of more than $830,000. On the other hand, if you borrow money at 5% and make monthly payments for 30 years, as with a mortgage, you can only borrow $186,000.

Most of us will be required to borrow money in order to buy a home. That is wise, notwithstanding the experiences of the past five years. Homes do tend to appreciate in value over long periods of time (though there is no guarantee). More importantly, home ownership tends to help improve the stability of the home. That's what you're really about.

Most people choose to drive cars that require car loans. It isn't, however, that hard to buy a car for cash. A new car payment could easily reach $500. In just six months of saving that amount, you can buy a car that runs and will likely continue to run for several years with regular maintenance, but with no car payment and very little depreciation

If you save $400 each month for your next car (spending the extra $100 on maintenance) after two years you'll have put $9,600 into savings on which you'll have earned some interest, so you'll likely have $10,000 of cash, plus a $1,000 clunker for a trade-in. You're not buying a clunker any more. Sure, you'll be buying a used car, but likely one that you can drive with pride for five years or more. Along the way, you'll keep saving and at the rate of $400 per month with a little interest, you'll accumulate $25,000 of cash, plus your trade-in so now you can buy a new car if you want. Drive that for seven to ten years, and your next car will be one you'll be excited to buy!

This same principal and pattern applies to almost anything. It applies to your vacations (OK, you can't trade in a used vacation), a new set of golf clubs for your husband, a new bicycle for you—just about anything that threatens to stretch your spending budget. The impact of saving for smaller purchases can be even greater than for your car because the interest you pay on credit cards—the way you borrow money for bicycles and golf clubs —is a lot higher than the interest rate on a typical car loan.

Plenty of people let their consumer debt accumulate until it looks like a car loan and all they have to show for it is used stuff that would be hard to sell at a garage sale and some photos from vacation. You can take control of money by saving for things you want to buy instead of using credit cards and loans. If you do, you'll find that money works for you and makes your life easier, not harder. You'll be investing in stocks, bonds and real estate and planning for a wonderful retirement while your friends hold garage sales.

How Much Can You Really Save By Using Public Transportation?

The average commute in America is about 15 miles each way, meaning that a typical commuter drives 30 miles every day to get to and from work. How much could you really save by parking your car and taking public transportation? Let's do the math together. It may surprise you.

First, we need to decide whether you'll get rid of your car altogether or just park it while you're at work instead of driving it. If you get rid of the car altogether, you'll save a great deal more than if you park it.

Let's consider all of the costs of owning a car, presuming you drive a total of 1,000 miles per month (meaning you're driving 400 miles per month on top of the commute and you'll have to find some other way to cover those miles, too).

If your car gets 30 miles per gallon, you'll burn about 33 gallons of gas each month, which at $4 per gallon results in a cost of $132 per month. Car insurance varies wildly from person to person, but could easily be $100 per month, depending upon your car, your age and your driving record. Maintenance costs tend to be low for new cars and high for old cars, but can easily exceed $100 per month, remembering that one set of tires or new brakes will cost hundreds of dollars.

The biggest cost of all is the cost of owning the car, really the depreciation. Roughly 80% of the car's value will be gone after 10 years. The simplest way to think about this is that the car will depreciate approximately 15% each year. The average price of a new car in 2012 is a shade over $30,000. Depending on the model and condition, a five year old car might be worth only $13,000. The depreciation for the year will be about $2000 or $167 per month. If you have a car loan with a 5% interest rate and a $10,000 balance, the interest is costing about $40 per month.

The total of all these costs would be $539, assuming you own a fairly average car or about $0.54 per mile. If your car is bigger, newer, fancier or gets worse gas mileage or if you have a poor driving record the cost could be much higher.

What it may cost to use public transportation in your city should be easy to learn. In mine, commuting would cost $78.50 per month or less than $3.60 per day, meaning that I would save $460 per month if I could jettison the car and use public transportation instead. That would leave me plenty of room to use a car share, a taxi cab or even an occasional rental car for special occasions and still be money ahead.

If you don't sell the car, but park it, you can't get rid of the depreciation, interest or insurance, but you can reduce the fuel and maintenance proportionally. Fuel and maintenance combine for an average of $0.23 per mile in our example (more if your car is older or larger than average). The fuel and maintenance costs per mile total about $7 per day for 30 miles of commuting. So, using public transportation at a cost of $3.60 per day would save you almost half or $3.40 per day—and it's very green. If you have to pay for parking, the savings will add up even faster.

Walking Or Biking Can Save More Money Than You May Think!

According to one source, 10% of automotive trips are for distances of less than one mile and more than 20% are less than two miles. If you were to walk or bike for some of these trips, you'd use your car less, save money, protect the environment and get some valuable exercise. Here are some ideas to help you walk more and drive less.

1. Make a list of the places you'll walk rather than drive. You may need to keep track of where you drive for a while for this to work, but note not only those places where driving requires a trip of less than a mile or two, but also note where you can walk shorter distances than you can drive—many subdivisions feature bike and walking paths where you can't legally drive, allowing you to shortcut a driving trip. (For instance, to drive to the grocery store is about 1 mile from my home, but the walk is almost exactly half as far.)

2. Measure the distance you'd drive to each of the places you decide to walk or ride.

3. Measure the distance you walk or ride to get to each of these places.

4. Keep track of the miles you avoided driving. If walking and biking allows you to get rid of a car, you're saving more than 50 cents per mile; if you keep the car, you're still likely saving about a quarter (unless you have a plugin electric vehicle).

5. Keep track of the miles you walk or ride. Note that a typical person burns more than 100 calories per mile walked and up to 50 calories per mile on a bike.

6. Make walking and biking for your errands a key part of your exercise program. Instead of walking 30 minutes on a treadmill or riding an hour on your spin cycle, go walk or ride an errand instead.

7. If nothing else, the money you save on gas can go to something much more fun, like a donut or ice cream while you're out and about. If you're disciplined, the money can be saved for something much more meaningful and the calories burned can translate into a skinnier, healthier you.

By systematically organizing your exercise plan to be productive you can save time and money and lose weight too—all while you do something real to help the environment!

Two Ways that Doing Nothing Makes You Big Money

There are two ways that doing nothing saves you big money that can make all the difference in your life and retirement.

The first is when you decide not to sell your car and buy a new one. Most people will do this dozens of times over their lives. We all know someone who buys a new car every year or two, perhaps even the same model in the same color. This is an expensive habit.

Imagine this hypothetical, nonsensical transaction. Let's say Bob has a year old blue car (pick your favorite make and model). Let's assume that Bob would like a red one but is otherwise perfectly happy with the car. So Bob heads down to the dealer to trade his blue car for the red car (let's assume they have a used red car otherwise identical to his on the lot).

In theory, of course, the two cars are economically identical and Bob should be able to trade one for the other at no charge. That won't happen. The dealer will offer Bob a warranty of some sort, financing, a fancy place in which to do the transaction, a free cup of coffee and perhaps a hot dog. Bob offers the dealer a used car that may or may not have problems he doesn't disclose, if only because he doesn't know they exist. For these and other reasons, Bob will get about 20% less for the trade in than he pays for the car he drives away.

On top of that, he'll pay registration fees, sales tax on the difference and anything else the dealer and the state can think of to charge him while he's got his checkbook out. When he leaves, Bob has an economically identical car to the one he drove in with, but he's giving up 20 to 25% of the value in transaction costs to the dealer. (Bob wouldn't do much if any better selling his car in the newspaper, on Craigslist, eBay, or parked on the corner.)

Of course, Bob would never make this trade—he'd paint the car instead. But the hypothetical transaction helps to highlight a key point. The transaction of buying a car is very expensive. By reducing the number of times you buy and sell a car, you are putting money in your wallet. When you buy a car, plan to drive it for at least seven years and preferably for ten or more.

Given that buying a new car costs about $4,000 in transaction related expenses, if you reduce the number of times you do that in your lifetime from 25 to 10, you'll save $60,000 over your lifetime—by doing nothing.

The other time when doing nothing pays, is when you get the itch to sell your home and buy a new one. Some people move around town in a frantic hopscotch hoping to find the perfect home, the perfect neighborhood or the perfect school. Each purchase and sale costs about 10% of the value of the homes, easily $20,000 today. If you do that twice in your lifetime instead of ten times in your lifetime you'll easily save $160,000—by doing nothing!

What You Need To Know About Your Car Insurance But Were Afraid To Ask

Even if you have car insurance, your coverage may not be adequate to protect you and your family in case of an accident. Car insurance terms often seem like a secret code that you can't understand and hope you'll never need.

There are two key parts to your insurance: *liability insurance* that provides financial help to other people when you cause the accident and *collision and comprehensive* insurance that covers your car from accidents, broken windows, theft, etc.

There are a few key terms that you need to fully understand.

Liability limits:

Every state sets minimum limits to define how much liability insurance you need. The limits are reported as three numbers—your agent may have mentioned them to you when you bought your policy. In California the minimum limits are 15/30/5, meaning that you must have bodily injury coverage of at least $15,000 per person and $30,000 per accident, plus at least $5,000 for property damage. If you buy only the minimum required policy you may be in trouble. If you cause an accident with anything other than a 1972 pick-up truck with bolted on wooden bumpers, you'll be paying for someone else's car out of your savings account—or future earnings. If more than two people were in that car and needed more than $30,000 in care, again, you'll be getting the bills.

Deductibles:

The deductible is the portion of the damage that you are required to pay. Deductibles don't apply on the liability insurance; they only apply to you and your car. If you back your car into a concrete pillar in a parking lot (I use that example speaking from experience) you'll be responsible to pay the deductible. The insurance company will be responsible for the rest of the cost of the repair.

Saving money:

Your policy gets cheaper as you retain more risk and ask the insurance company to take less risk. You can do this in two ways. You can raise your deductible or lower the liability limits.

Raising the deductible. The ultimate way to save money is to not buy collision and comprehensive insurance at all. If you drive a clunker, as I've done at times over the years, you may be able to afford to assume all the risk of repairing or replacing your car if it is damaged or stolen. If you drive a nice car—anything but a clunker—you'll want to have collision and comprehensive insurance, but you can choose to have a higher deductible.

Lowering the limits. Many people buy only the state-required insurance limits. This is extremely risky. Not only are all of your current assets at risk, but so is your earning capacity. You can be forced to pay damages from your income for years into the future. Raising your liability limits above what most people in your state buy is good practice for anyone who has a good job or good savings. If you are focusing on frugal living and providing for your family, you likely have a home with equity, college savings and other

assets. All of these are at risk. Insuring yourself with unusually high limits is remarkably inexpensive—once you're past 30—if you have a good driving record. The odds of your having a major accident with lots of injuries and expensive property damage is low. The insurance company understands this and they won't charge you much for taking this risk off your hands.

As a general rule, when buying insurance, it makes sense to pay others to take risks you cannot afford to pay yourself. Similarly, it doesn't make much sense to pay someone else to take risks you can afford to take. So, raise your deductible to a level you can afford and use the premium savings to increase your liability limits to cover the risks you can't afford. Talk to your insurance agent today to be sure you have the coverage you need.

Chapter 4

Your Home is the Centerpiece of Your Family's Financial Future

Why homeownership should be your first family financial goal

There are a lot of competing pressures on families to build a happy and healthy financial future, from cars to college and from retirement to a residence. Picking a priority can be frustrating. But there is a clear best among all of these financial goals: homeownership.

Habit for Humanity, The organization that works with poor families to help them get into a home, has gathered available research to understand the benefits of home ownership.

Children's Academics: Owning a home is good for your children. Math and reading scores for children living in owned homes versus those living in rented homes were 9 and 7 percent higher, respectively for those living in owned homes. Children of homeowners are 25 percent more likely to graduate from high school. Children of homeowners are *more than twice* as likely to finish college.

Behavioral Challenges: Renters' children also face greater behavioral challenges. Most dramatically, renters' teenagers are 40% more likely to give birth out of wedlock than children of homeowners.

Children's Future Income: Homeowners' children earn an average of one dollar per hour more than renters' children. Homeowners' children are almost half as likely to end up on welfare as adults as renters' children.

Family Stability: While reports show that homeowners earn about twice as much as renters, it isn't clear that owning a home causes that so much as results from that. It is conceivable that the stability created by homeownership fosters career development. Homeowners' children are half as likely to grow up in single-parent households or be on welfare.

Grandchildren: Homeowners' children are almost 60 percent more likely to own homes themselves, providing an intergenerational benefit.

Forced Savings: The financial benefits of homeownership are dramatic. The mortgage serves as a sort of forced savings plan; the home equity is difficult to spend, allowing families to accumulate meaningful net worth. While saving and investing in other assets could yield similar results for renters, most do not accumulate a similar net worth.

Retirement Savings: By owning a home that you pay off before retirement, you provide yourselves with a linchpin asset for retirement. A free place to live will allow you to stretch your other retirement assets further, making your retirement more safe and secure.

Happiness: Surveys show that homeowners are happier in their homes than renters.

Community Roots: Homeowners stay in their homes an average of four times longer than renters. Perhaps that's why homeowners are more likely to vote, to know who their congressman is or to be able to identify the head of the local school board.

There are a variety of programs available to help low to moderate income families acquire a home. The Federal Housing Authority offers low down payment loans. The Veterans Administration offers loans with no down payment to qualified veterans. Many

states and municipalities offer assistance for acquiring a home. If you make owning a home a priority, it can become a reality.

Seven Tips For Buying Your First Home

One of the most important decisions a couple will make is the choice of a first home. Choosing well can ensure good schools for the kids, stability in family and other relationships and opportunity. Choosing poorly can lead to financial disaster. Financing the home purchase properly is almost as important as buying the right home. Here are some tips to help you make the right choices:

1. Choose a home in a neighborhood where people generally earn what you earn or a little bit less. By doing so, you'll find your neighbors drive cars like yours, struggle with the same budget questions you do, vacation where you do, etc. If you move to a neighborhood where everyone has a bit more money, you and your kids are likely to feel poorer not richer, constantly struggling to buy a car as nice as the neighbor's car or to vacation like they do. Save yourself the drama.

2. Choose a home with convenient access to public transportation. You may not think you want to use it now, but if gas prices spike or your income changes, using public transportation may become the solution to an otherwise big budget problem.

3. Choose a home where you can walk to some of your most routine destinations, school, grocery store, and other conveniences. Having the option to walk for those errands could save you money, keep you fit and help protect the environment.

4. Choose a home that will be adequate for your family for a long time, perhaps forever. The secret weapon in finding a home that will last a long time is often an unfinished basement. That open space makes great storage today and in the future—when resources permit—you can turn it into beautiful finished space for more kids and/or more luxury.

5. Don't borrow more than you think you can afford just because the bank says you can afford more. You know your spending habits and your needs. Don't fudge with the bank so you can borrow more than they would otherwise allow; the bank's underwriting guidelines are generous enough. Banks are in the business of making loans; they want you to qualify. Fit your home to the available financing.

6. Make the largest down payment you can. Making a down payment of less than 20% of the purchase price will increase the cost of borrowing the balance, so save and prepare well so that you can make the largest down payment possible. If you can comfortably put more than 20% down, do it. The smaller your mortgage, the better.

7. With mortgage rates at all-time lows in 2012, consider a shorter term mortgage. It wasn't too long ago that folks thought that 8% was a reasonable mortgage rate. The payment on a 2012 mortgage at 3.75% for 15 years is the same as the 8% mortgage spread over 30. By putting yourself in a position to be mortgage free in fifteen years instead of 30, you create possibilities for your family that may far outweigh an extra 600 square feet of living space.

The happiness you will experience in your home will have much less to do with the house than the people in it. If you buy a home that stretches you financially, you'll add stress and anxiety to your home. If you buy a home you can easily afford and have virtually no risk of losing, you'll invite peace, tranquility and stability into your home.

Four Tips to Help You Buy a Home You Can Really Afford

It is challenging to remember when there has been a better time to buy a home. In most places in the United States, with Manhattan and a few other places as notable exceptions, home prices are still well below their peak values in 2007 after five years and mortgage rates are incredibly low—many mortgage professionals would have told you mortgage rates couldn't get as low as they are in the fall of 2012.

So, given that you'd like to buy a home, the following ideas will help you get the most for your money without using most of your money!

1. Ask your mortgage loan officer how much you can afford to borrow then commit to borrowing even less for your home purchase. It is tempting to buy a home that will stretch your finances to the absolute limit for some very good reasons, but that approach comes with some huge risks as the last five years have shown.

2. Find a home in a neighborhood where the average income is like yours or lower. If you stretch your way into a neighborhood where everyone earns more than you do, you'll feel painful pressure to keep up with the Joneses in ways that are very expensive. If your budget only allows for summer vacation to the nearest national park and your neighbors are all vacationing in Hawaii or Europe, you'll feel poor even if you're not!

3. Stay in your home for a long time. If you can stay in your home for fifteen years or more, the mortgage payment will truly seem to get smaller. Even modest levels of inflation over long periods of time will tend to push the value of your home up, along with your income, making the mortgage look small. After fifteen years, the remaining balance on your home may be comparable to a typical new car loan, meaning you could pay it off in just four or five years if you really wanted to do so. The longer you stay, the cheaper it gets. Stay for thirty years and suddenly it will be free!

4. Maximize the down payment. When you buy your home, it is generally a good idea to put as much down as possible. It may require some sacrifice to get the down payment up to 20% of the purchase price, but that will not only reduce the monthly payment because you'll borrow less, but also because you'll avoid mortgage insurance (which adds no value to you or your home apart from allowing you to make a small down payment). If you have retirement savings in a 401k or IRA that can be used for the down payment, that may make sense if you are not yet 40 (so you have plenty of time to save for retirement) and you check with your tax advisor, you may be wise to use that to get your 20% down payment. Don't take money from retirement savings to create a larger down payment than 20%—keep the money in your retirement account.

Seven Tips to Help You Qualify for Your First Home!

Buying your first home is exciting, wonderful and scary. Your home will be a place where you raise your family, build life-long friendships and it will likely become a central part of your financial stability. Waiting for a mortgage underwriter to approve your loan can take several anxiety filled weeks.

Here are some tips to help you succeed in getting your loan approved quickly.

1. *Save for the down payment*. You cannot borrow the down payment for most mortgage loans. For some, you cannot even accept a gift. Parents often offer to lend their adult children the money for a down payment. That can be problematic. If your parents are really willing to help, consider moving back in with them for a year while you save the rent money for a down payment. As a general rule of thumb, you'll need about 7% of the purchase price of the home to qualify for a typical mortgage, including some closing costs and post-closing reserves. Get specifics from your loan officer.

2. *Work on your credit*. Before you even start thinking about buying a home, you should be working to establish a good credit record. You don't have to borrow a lot of money to prove you have good credit. You've likely been paying rent and utility bills on time. That can be documented. (If you haven't been paying on time start today!) Pay everyone for everything on time. If you can't afford it, don't borrow the money to buy it.

3. *Sell your car*. If you have a car with a loan, consider selling it to reduce your outstanding debt and, if possible, buy one for cash. If your car is nearly paid off, that is, by making the regular payments it will be paid off in less than a year from the time you will submit your loan application, you don't need to do anything special. The underwriter should ignore the loan. Just commit now to keep driving the car long after it is paid off. (My wife and I sold our cars and bought an old clunker that we drove for 18 months in order to qualify for our mortgage.)

4. *Pay off consumer debt*. Reduce all of the debt you have as much as possible. It may be difficult to do this while you're saving for a down payment, but the debt will work powerfully against you both before and after you buy your home. Get rid of it.

5. *Consolidate and extend remaining debt*. This step is not a substitute for the prior steps. Get rid of as much debt as possible. Once you've reached your limit and your debt is manageable, look for an opportunity to combine and extend any remaining debt to minimize the payment. You should complete this at least 90 days before you start looking for a home. Credit applications near the time of your mortgage application are a big red flag.

6. *Before you find a home, get "pre-qualified*." Different lenders have different names for and offer varying assistance toward helping you figure out how much money you can afford to borrow, but regardless of the form it takes, this free consultation should give you a good gauge of what you can afford. Be sure that your lender reviews your credit report at this stage so that you both know before you start writing offers if there are problems there that could prevent you from getting approved for a mortgage.

7. *Provide, don't hide information.* It is virtually impossible to hide financial information from the underwriters. Your entire life history is just a mouse click away. If there has

been a financial problem in the last seven years, disclose it early and provide a complete explanation for what happened and why it will never repeat again. Underwriters—not the loan officer with whom you'll work directly—will make the loan decision and they will ask for all kinds of information. Even the loan officer may not understand why the information is being requested. Provide it quickly if you want your loan approved.

By following these basic steps you'll have prepared yourself well to buy a home where you and your family can build a happy life together.

Five Tips to Help You Save For a Down Payment

One of the greatest financial struggles a family ever faces is making the down payment on a first home. A down payment of 5% is really just the beginning. In addition, there are closing costs that can easily total 2% of the purchase price. Add to that, the underwriter will want to be certain you have adequate cash reserves to make a couple of payments to protect you against the interruptions in your cash flow.

If you are hoping to buy a $150,000 home, you'll need $7,500 for a down payment, another $3,000 or so for closing costs and another $2,000 or so in cash reserves or a total of about $12,500.

The following are some tips to help you save for your down payment or reduce the requirements.

1. FHA Loans*:* FHA Loans require only a 3.5% down payment. FHA loans are insured by the Federal Housing Authority. In some cases, interest rates may be fractionally higher, but for first time home buyers struggling with a down payment, any slight difference may be overwhelmed by the smaller down payment. Not all lenders offer FHA loans. If you are struggling with the down payment, be sure to work with a lender that can offer an FHA loan.

2. *Seller Pays Closing Costs:* As you work with your real estate agent, talk to her about having the seller pay your closing costs—even if you have to add them to the purchase price. In a "seller's market" where sellers get their way on everything, this may not be an option. In a "buyer's market" where buyers get their way on everything, you can probably offer less than asking price and still get the seller to cover the closing costs.

3. Use your IRA or 401k*:* The IRS will allow you to withdraw up to $10,000 from your IRA for a qualified first time home purchase. Both you and your spouse can do so. You may be better off, however, leaving your cash in the IRA. The mortgage loan underwriter will likely count the cash in your IRA toward the cash reserves. For that purpose, you'll pay no tax or penalty. If you withdraw money from your IRA for your down payment you will be required to pay the tax on the withdrawal—but no penalty. Talk to your employer about borrowing from your 401k. If it is allowed, you'll pay no tax and no penalty and you're basically borrowing from yourself.

4. *Sell your car.* If you have two cars and can get by with one, sell the other one. If you can get some cash for the down payment and pay off the car loan at the same time, that can help you maximize your ability to qualify for the mortgage.

5. *Mom and Dad*. It is common for parents to help their adult children with getting into a first home. There are two basic ways in which parents can help. Obviously, parents may make a gift of cash for the down payment. Alternatively, they can invite you to live in the basement for a year while you forgo rent and accumulate a down payment. Even if you didn't get this sort of help from your parents, you may consider helping your children. A successful financial launch into adulthood by purchasing a home can provide tremendous stability for a family over the years.

By combining all of these strategies for reducing a down payment requirement and saving for it, the challenge may seem less difficult. Rather than needing $12,500, you

may be able to get by with just $7,500 or so. Selling a car, saving on rent, borrowing from the 401k may quickly combine to provide you with the down payment for your first home.

What Are The Closing Costs I Always Hear About With Mortgages?

When you buy a home or refinance your mortgage, you should expect to pay a plethora of petty fees. Even if you can get the seller to pay them for you, it is a good idea to understand them.

Some fees are associated with the mortgage and some fees are associated with buying or selling a home.

Mortgage Related Fees

Appraisal: Appraisal fees vary by market, but the cost is typically around $300 for a single family home.

Credit report: Costs vary, but expect to pay up to $50.

Lender's title insurance: This is insurance that protects the lender in case there is a problem with the title to your property. In most cases this will be less than 1% of the mortgage or $1,000 per $100,000 of mortgage loan.

Origination Fee: This fee may be negotiable. Typically, it is around 1%.

Underwriting Fee: This fee, not always charged; it could be up to $750 and may be negotiable.

Document preparation fee: This fee could be up to $150 and could be negotiable.

Tax service fee: This is a fee paid to verify the status of property taxes. The fee is usually about $60

Flood inspection certificate: This is the fee to confirm whether or not flood insurance is required because the property is in a flood zone; expect to pay about $15

In addition to the closing costs above (the list is not comprehensive—there could be other costs), you may also have to pay some interest at closing for the rest of the month, in which case your first mortgage payment won't be due until the first of the month after next. You may also have to pay a portion of the property taxes if the lender is requiring you to pay them with your mortgage. Finally, if the mortgage company is collecting taxes, they'll be collecting property insurance as well and may want you to bring a portion of next year's premium to closing—in addition to evidence that you've paid the current year.

Home Purchase Related Fees

Home purchase related fees in addition to the fees shown above (if you buy a home for cash, the fees above are avoided, otherwise you'll pay the mortgage related fees above plus the home purchase fees):

Closing fee: This fee is typically paid to the title company to handle the closing; expect to pay about $100 to $150. (Both buyer and seller will pay the same amount.)

Wire fees: This is for the escrow company to wire money to the seller; expect to pay $10 to $25.

Federal Express fees: This is to cover the cost of sending documents between the parties; expect $15 to $35.

Seller Related Costs

If you are selling a home, these are the fees you can expect to pay on that side of the transaction.

Real estate broker commission: The commission to the agent who sold your home typically costs six or seven percent of the purchase price. You may be able to negotiate the commission.

Closing fee: This fee is typically paid to the title company to handle the closing. Expect to pay about $100 to $150.

Buyer's title insurance: This policy protects the buyer from defects in the title that you didn't know about. Expect to pay less than 1% of the sale price of the home ($1000 per $100,000 of sales price).

Federal Express fees: This covers the cost of sending the documents between the parties; expect to pay $15 to $35.

By agreement, the seller is generally allowed to pay the buyer's closing costs. Often, the seller will demand a higher price as a result, effectively forcing the buyer to borrow the money as part of the mortgage.

As you can see, the total closing costs for a real estate transaction are large, with the buyer's costs easily topping two percent of the purchase price (including the mortgage related costs). The seller's costs are even larger, with the commission included. Selling one home and buying a new one can easily cost a family 10% of the average value of the homes they are buying and selling. Don't ever fool yourself into thinking that you somehow make up that money. It's really gone.

Six Insider Tips for Refinancing Your Mortgage

As the former owner of a mortgage company, I know that refinancing your mortgage can be a lot of work and it can be complicated. Here are six tips to help you get the most out of your mortgage refinance:

1) Focus on the interest rate, not the payment. If you've been paying on your mortgage long enough, you can drop the payment materially just by starting over with a fresh 30 year mortgage, but that won't accomplish much.

2) Remember that the principal payments you make with your mortgage payment are just like savings. The more the merrier. You're just moving money from your checking account to your "home equity" account.

3) Home equity is hard to spend—and that's a good thing! It is relatively difficult to access the equity in your home these days; it was a lot easier before 2008. Thank heaven for small favors. Be glad that the market is imposing some discipline on us, making us build up equity in our homes. Home equity tends to translate into more stable home environments, neighborhoods, and communities.

4) Choose the shortest maturity you can afford. Mortgage rates drop as the maturity or length of the mortgage gets shorter. In other words, a 15 year mortgage typically has a lower interest rate than a 30 year mortgage. Payments rise as maturity shortens because you pay more principal every month (see #2).

5) Don't spend the money you'll save until after you have the loan. The loan officer who helps you with your loan application will not be the person who decides whether or not your loan is approved. Almost certainly, the loan officer is more optimistic about your loan approval than the underwriter (who will decide) for this simple reason: the loan officer is paid on commission and he has no shot at a commission for a loan he doesn't submit, but he has a shot at a commission on even a long shot mortgage application.

6) Do everything the loan officer asks you to do. Applying for a mortgage can be frustrating. The loan officer will sometimes ask you to do things that seem to make less sense than hopping up and down on one foot while rubbing your tummy. If you want the mortgage, do it anyway. Feel free to ask why you are being asked to jump up and down on one foot while you rub your tummy, but ask while you're hopping and rubbing. Generally, such requests are really coming from the underwriter who may not have any direct communication with the loan officer so he may not even know why. Refusing to provide requested information will likely result in not getting your loan approved.

My New Job Is 40 Miles From My Home; Should I Move Closer To Work?

Anyone who has moved a family recently can tell you they hope never to do it again. Memories fade and many do it over and over again. If you land a new job that is say 40 miles away, it may be tempting to move closer to work. Here are some considerations to help you decide:

1. Rent or own? If you are renting your current residence, the cost of moving is much smaller, and the opportunity to save enough to pay for the move is much more likely. If you own your home, it could take decades to save enough in transportation costs to pay for the move.

2. Car or train? If you will have to drive to your new job every day, the costs of the commute will add up more quickly than if you can take the bus or train most or all of the way.

3. Graveyard or 9 to 5? If you will be working normal hours, leaving the new job around five and can still be home for dinner every evening, the pain for your family may be small. On the other hand, if you work shift work that makes time with the family scarce already, you may be willing to make a financial sacrifice by moving to have more time with your family.

4. Fast or slow? Your commute being 40 miles long now could take anywhere from about 40 minutes to an hour and forty minutes, depending on the speed of the commute. The longer the time required for the commute, the more it will wear on you and your family.

5. Telecommuting, yes or no? Will your new employer allow you to telecommute some of the time? The less often you need to make the new, longer trip to the office the more sense it makes to stay where you are.

6. Tax deductible**, yes or no?** If your new job isn't 50 miles farther from home than your old job, the move isn't tax deductible in the United States. If your move is tax deductible, it makes much more sense than otherwise.

7. What's best for the family? It is important in most circumstances to ask yourself what is best for the family, all things considered. That includes thinking about non-financial considerations. For some people, buying a new home is pure pleasure and they are always looking for an excuse. Don't ignore the financial considerations in making your final judgment, but don't overweight them either.

Finally, consider some simple math. Selling a home and buying a new one could easily cost 10% of the value of the homes. With a typical home costing about $250,000 in many parts of the country, a move costs $25,000. That cost is not recaptured in any way ever. It's gone for good. The cost to drive a car you'd own anyway is quite roughly $0.25 per mile. You'd have to drive 100,000 on your commute to make up for the cost of the move. If your commute is 60 miles longer per day, 300 miles longer per week, 6,000 miles longer per year, you'd need to work at the new job for about 15 years to save enough on gas and car maintenance to pay for the move.

As you can see, it is difficult to justify selling a home because of a long commute simply based on financial considerations. You may find that quality family time is so rare that it is justified in your case.

We Just Bought A New Home; The Mortgage Is Killing Us. Help!

Congratulations on your home purchase and welcome to the world of home ownership. Almost every family who has purchased a home remembers those early years of homeownership that we thought we could never endure. Here are some tips to help get you through the lean years when folks sometimes say they are "house poor."

1. *Start in the garage*. If you have a beautiful car in the garage for which you are making big payments, you aren't house poor, you're "car poor." Sell the big, beautiful car and get rid of the payment. Buy a clunker for cash and drive that for a year or two.

2. *Check your* W-4. When you bought a home, you may have put yourself in a position to exceed the standard deduction on your income tax return because the mortgage interest is deductible. (If you have a modest home and you financed at very low interest rates, you may not.) Talk to your tax advisor to determine if your mortgage interest would allow you to file a new W-4 with your employer, changing the number of "allowances" you claim. Increasing the number of allowances will *decrease the taxes* withheld from your paycheck and also reduce the refund you'll get after you file your return.

3. *Sell the big boy toys*. You know the old saying that the only difference between men and boys is the price of their toys holds some truth. If you have four-wheelers, RVs, expensive hunting and fishing gear, you may have to sell some of this. If you still have loans on any of this equipment or have credit card balances that can be reduced by selling it, this is a good step. It would be much better to sell an RV that gets used three weekends every year and one week every summer than to lose your home, right?

4. *Cut back*. In the first years of home ownership it is customary to find yourself cutting back on eating out, entertainment, vacations, hobbies, etc. Discretionary spending becomes a thing of the past for a time.

5. *Ask for a raise*. Your financial circumstances don't really interest your employer. Your boss isn't going to give you a raise because you bought a home you are struggling to afford. That said, if you haven't had a raise in a while—and that's a lot of people these days—and your company is thriving again, it isn't crazy to make a thoughtful request for salary increase.

6. *Get another job*. Just after buying a home is a scary time to change jobs—changing jobs is risky. If you're convinced you're under paid, you can look for a higher paying job. If not, you may look for moonlighting opportunities that you can hold down just until your income at your primary job catches up to your expenses.

7. *Sell the house*. This should be your last resort. After the housing debacle of 2008-2010, mortgage lenders learned their lessons. They had allowed people all across America to buy homes they couldn't afford on the hope that the home would appreciate and bail everyone out. If you just recently bought your home, the mortgage lender should have been convinced that you actually can afford to make the payments. If something has happened to your income or the lender somehow goofed and you really can't afford the home. Sell it. Your down payment may be lost forever, but if you lose the house to

foreclosure, not only is your down payment lost but your credit is, too. If you can't make it, sell it before they take it.

Home ownership is a wonderful way to build a stable and happy home life for your family, giving you the opportunity to put down roots in a community, build lasting friendships and help your children succeed in school. Making home ownership a priority in your financial planning is wise. Almost always there is a way to make ends meet during those first few years of home ownership. Keep your head up. Lots of people have done it before you and you can, too.

How Do I Know Whether Or Not To Refinance My Mortgage?

Mortgage rates have recently been so low that many in the mortgage industry never anticipated they could get so low, leaving many wondering whether it is time to refinance the mortgage (again).

There are a variety of considerations and few simple answers, but I'll try to clear away as much confusion as possible to help you determine if you should refinance.

First, you should assess whether or not your home is worth enough to support the mortgage you want. In order to qualify for the lowest cost mortgage, your home should be worth about 1.25 times the mortgage. If you have a $200,000 mortgage, your home must be worth $250,000 to get the lowest cost mortgage in terms of interest rates and fees, including mortgage insurance. Generally, you can't refinance your mortgage at all unless your home is worth at least 1.11 times the mortgage amount. (In some circumstances you can negotiate with your lender to modify your existing mortgage if the home's value is lower than the mortgage balance and you have had trouble making the payments.)

In order to get the best mortgage rates, you'll need to have very good credit. Good credit starts with never making any payments late and includes not having too much debt relative to your income. Recent foreclosures, judgments and bankruptcies make refinancing almost impossible at low market rates. You'll also need stable income; if you've had recent gaps in employment, you may need to wait to refinance. The best way to find out of you have good enough credit is to apply.

The difference between the interest rate you're paying now and the interest rate you're being offered is also important. Some lenders will do a mortgage refinance at no charge to you, but they charge a higher-than-market interest rate. This could be a good idea if you plan to move in the near future as you'll have invested nothing (but your time) in the refinance. If you choose a zero cost refinance deal, any interest savings you get will begin immediately. If you are confident that you'll be staying in your home for a long time, it may be wiser to pay some fees (typically about 2% of the loan balance) to refinance as you should be able to find a lower interest rate than you'd get with a no-fee loan.

If you choose to pay the typical 2% fee to get the best rate, you'll want to make that up as quickly as possible. If your new rate will be two percentage points lower than your old mortgage, that is your old mortgage is at 6% and the new one will be at 4% or less, then you can make up the cost of the refinance in about a year. If the difference is just one percentage point, it will take about two years. You'll have to decide what makes sense in your situation, but I wouldn't refinance to save less than one percentage point.

Keep in mind that there are some things you'll have to pay at closing that aren't, strictly speaking, costs of the refinance. Be sure to plan for things like funding the escrow account for property taxes and insurance and for prorated interest at closing. These are all costs associated with having a home and/or a mortgage and not associated with the transaction, but you may need to pay them sooner than you would otherwise.

Should We Really Buy A Home Or Just Rent?

After the real estate collapse of 2008-2010, it would be easy to conclude that owning a home is a risk not worth taking. That may be the wrong lesson to take away from the Great Recession.

A home is not a great investment. It won't make you rich. If you hate yard work as much as I, you'll curse your home on the weekend. But, over the long haul, owning a home provides some key advantages over renting that are not entirely financial in nature.

There is nothing that would force renters to move—they could just keep renting most places. Similarly, homeowners could move around frequently. Statistics show, however, that approximately one third of renters move every year compared with about six percent of homeowners, suggesting that renters move about five or six times as often as homeowners.

Staying in one place helps to create stability in your family. It encourages you to put down roots, to build relationships in your community with the schools, the soccer teams, churches and even the merchants in your neighborhood. Those relationships may prove to be invaluable in a crisis—a sort of insurance policy against the unforeseen and uninsurable risks.

Over time, rent will tend to rise, approximately with inflation. Your rent is likely to eat away 25 percent of your income for as long as you rent. If you buy a home, your property value will likely rise approximately with inflation—not a great return, but better than nothing. At the same time, your mortgage payment will remain constant.

If you compare two hypothetical families, the Rentsalots who rent and the Ownsahomes who bought a home, after a decade you'd see a fairly striking difference in their financial situation. Assume that The Rentsalots started out paying $1,000 per month in rent. After ten years, their rent would likely rise to about $1345 per month (assuming a three percent inflation rate).

At the same time, the Ownsahomes bought a home with a $1,000 principal and interest mortgage payment, assuming a four percent interest rate. With a five percent down payment, the Ownsahomes would have paid about $220,000 for a home with a mortgage of just under $210,000. After a decade, the Ownsahomes' home would be worth about $296,000 and their mortgage balance would be down to $165,000 or so, meaning that their initial equity of just over $10,000 would have expanded to $131,000.

The Ownsahomes aren't rich, but they do have a meaningful amount of equity in their home now. The Rentsalots not only don't have that equity, they're now paying more each month than the Ownsahomes to rent their home.

Of course, the Ownsahomes had to come up with a down payment. That couldn't have been easy. If they had bought their home in 2007, they might well find that even after a decade they won't have seen much if any appreciation because of the big fall in values that followed 2007. If something, say a lost job, had forced the Ownsahomes to move during the Great Recession they might well have regretted the purchase as they'd likely have lost their equity—and perhaps much more.

Home ownership should not be seen as a way to get rich. That argument would encourage you to do unwise things, like buying a bigger home than you need or can afford. Buying a home that you can afford can bring peace and stability over time. Don't ask your home to make you rich. Ask your home for a safe place to raise a family and you shouldn't be disappointed.

How To Party Like It's 2042 Long Before Then

If you bought a home this year with a standard 30 year mortgage, you'll make your last payment in 2042. If you'd like to celebrate the day you own your home free and clear of a mortgage before the 30 years are up, here are some tips to help:

1) Pay just 10% more each month on your mortgage and you can shave five years off the life of the loan, depending on your interest rate; 20% will shave nine years! Even 5%, just $50 on a $1,000 mortgage payment will cut three years off the life of a loan. (The higher your interest rate the more impact a little more money has.)

2) Remember that paying down the mortgage has much the same effect as putting money in the bank, except that you'll effectively earn a higher interest rate. Of course, the equity you build in your home is harder to spend, but that's a good thing!

3) If you get paid every two weeks, you'll be getting 26 paychecks and only 12 scheduled mortgage payments. If you make one extra mortgage payment during the year, the effect is similar to number 1, above. Combined with number one, you could shave more than a decade off your mortgage.

4) If you made a down payment of less than 20%, you are almost certainly paying what is called Mortgage Insurance. As soon as two years have passed, if you increased your home equity to more than 20%, you can refinance your mortgage to eliminate the mortgage insurance. Of course, if rates are higher, there is no advantage, but if rates are also lower, you can create even more cash flow that can be applied to principal each month.

5) If your mortgage is more than two years old now, investigate a refinance today. Interest rates are low in the fall of 2012 and you may be able to afford a fifteen or twenty year mortgage right now without paying much more each month. Don't fall to the temptation to start with a fresh thirty-year mortgage without committing to pay at least a little extra to shorten the term to at least what it is today.

6) If you get a bonus or an inheritance, even if it isn't enough to pay off the mortgage, go ahead and make a big extra payment. You may want to alert your mortgage processor to apply it all to principal immediately and not to future payments over time. By paying down a lump of your mortgage today, more of your regular monthly payment will go to principal each month thereafter and your mortgage will be paid off years earlier.

Paying off your mortgage really is a reason to celebrate. A generation ago, it wasn't unusual for a family to literally have a celebration to burn the mortgage documents once they were completely paid off. Today, many families carry mortgages well into retirement and effectively find themselves slaves to their lifestyle. When you own your home free and clear you own your lifestyle—it doesn't own you!

Chapter 5

Managing Your Career

I just got laid off. Now what do I do?

There is little more traumatic thing in life than to be laid off. Although most people who are laid off have a sense of the possibility—even the likely eventuality—the actual event is never easy. If you are fresh in that position, read on!

1. *Don't panic*. No one is going to eat your or your children. Almost certainly the worst that is likely to happen is far better than what you fear. As recommended in the book *Learned Optimism*, set aside time later in the day or in the week to sit and worry (don't be surprised if you don't feel the need to sit down and worry at the appointed hour—that's the idea).

2. *Start to work now*. Your job search is your new job. Start right now. There is a lot to do. It should be months before it occurs to you to be bored, but you'll likely have a job before then.

3. *Make a financial assessment*. Take the time soon to work out a new budget based on your available savings, unemployment benefits, severance package, spouse's income and any other available income. Remember this is temporary. There are some things you can go without during this period that you would normally spend. You'll also avoid some expenses you've had—payroll taxes will be a big one. Be sure to budget for continuing your health insurance—don't leave the window open for this crisis to become a full on catastrophe.

4. *Update your resume*. It may have been a while since you updated your resume. Don't worry. In just a few hours you can create a passable resume. Before you start sending it to prospective employers, send a copy to two or three of your most successful friends and family members for review. Not only will the feedback be valuable, they may have job ideas or opportunities waiting.

5. *Organize yourself*. You're your new boss. Congratulations. You've been promoted. You need to hold yourself accountable. You're going to send dozens—maybe hundreds of resumes out. You'll want to follow up on each one in a strategic way. If you don't have a good system for that, it will overwhelm you. JibberJobber.com offers a free or, to upgrade to the premium program, low cost service that will help you do just that.

6. *Network*. Optimally, you've already built a network of people with whom you have a good relationship. Reaching out to them will be second nature. If you haven't built that network, it will be harder, but still vitally important. Put yourself out there. Virtually everyone has been (or will be) where you are and they know it. There is no shame. You have a lot to offer so offer it up. Don't be discouraged when people are too busy for lunch—offer to swing by their offices for twenty minutes at their convenience. Not only is that easier for some people, but it eliminates the question about who buys lunch!

7. *Tap your social network*. You are almost certainly connected with a variety of people through Linkedin, Facebook, Twitter and other social networks. If not, start today. It's actually fun. Be careful not to fritter away eight hours a day on social networking, but if you aren't spending an hour each day, you're not engaging enough. You can make a lot of progress in relationship building here and its generally free!

Being laid off is no fun. Let's not pretend that this is a vacation. Unless you have a lot of money and it really has been a long time since you took a vacation, don't treat this time like a vacation. You've got a new job looking for a job. With a focus on the task at hand, you'll be back in the game soon.

How do I go from homemaker to the workforce?

Many women take time out of the workforce to be at home with their children when they are young and then seek to return to the work force later. Having hired a number of such women, I offer the following tips to help you in your transition (these ideas will generally work as well for men who've been playing the role of a stay-at-home father):

1. Take heart. Don't worry. You haven't forgotten how to work nor are employers especially anxious about hiring you.

2. Build a great resume. After being out of the work force for a few years, you may want to hire a professional to coach you on preparing your resume. Shining the best light on your community involvement over the years you've been at home will be a key to having a resume that reflects your capabilities well.

3. Be confident. Whenever you talk to anyone about a position, exude confidence that you can do the job. Assume that people will want to hire you.

4. Start with former employers. It may have been a long time since you worked for a former company or boss, but start with those folks. In 2009 I hired a woman with whom I'd worked a decade earlier; she'd been home raising kids for that entire time. She was a great addition to the team.

5. Get involved. Chances are you've been involved in your school community with a focus on helping your kids. Perhaps you've been coaching teams or volunteering with the PTA. You need to apply that same spirit to the broader community, in places where you are likely to meet more people interested in hiring you. Join a professional association, service organization like Rotary or other club where you can meet successful people.

6. Work your network. Be sure to let your friends know you're returning to work. You may not even know what all of the spouses of your PTA friends do, but some might be in positions to hire you. A friend from a volunteer organization can refer you as powerfully as a former colleague.

7. Work your social network. Your LinkedIn account may have cobwebs on it. Dust it off; freshen it up. Let your Facebook and Twitter friends know you're returning to the work force and let them know exactly what you want. It isn't helpful to tell people you want a job; tell them what job would be perfect. You'll get more help not less with this approach.

8. Don't be discouraged. Finding a job takes time. Make finding a job your job until you have a job. Get up and work at it with the same effort you'd work at a job. It won't take long before you have something you want.

Returning to the work force after a decade at home can be scary for anyone. The fact is, employers are always looking for talented and capable people. If you were employed before, you will be again if you want to be. Be patient and optimistic.

How Do I Ask My Boss For A Raise?

Even in tough economic times, it is reasonable to hope for—even to expect in some circumstances—a wage increase in your job. If the boss doesn't do it on her own, you may need to make a case for it. Providing for a family is a challenge; you deserve to be paid a fair salary. The following is a simple, step-by-step plan to help you ask your boss for the raise you deserve.

1. Deserve the raise. People always believe they deserve a raise. Before you go ask for a raise, be sure you really are doing more than is required of you.

2. Focus on results. Everyone can make the argument, "I'm working harder than Sally and Bob and they make more than I do; I deserve a raise." The argument sounds more like a whine than a defensible case. Rather than focus on your inputs (hours, ideas, and effort) focus on the outputs (results, outcomes, and achievements). Don't just identify your accomplishments ("I successfully completed project A.") Define the results, ("I just successfully completed project A which saved the company $50,000.")

3. Make the pitch. Once your case is ready, you really deserve a raise and you can quantify your value in terms of dollars, make an appointment with your boss to be sure you've got her undivided, focused attention. You know your boss better than I do, but being prepared is vital. Don't over prepare. A 42 slide PowerPoint presentation is way over the top. Be prepared to make a three to five minute verbal pitch, no memos, no slides, outlining the results you've achieved—well in excess of your total compensation package.

4. Don't demand a specific number. The biggest reason not to demand a raise of a specific amount is that your boss may be willing to do much more than you hoped or expected. If you ask for too much, you may frustrate your boss who would like to give you a raise, but can't deliver on your demand.

5. Be patient. Regardless of what your boss intends to do, she'll likely say something along the lines of, "Let me see what I can do." This may be to get you out of her office and it may be because she really needs to talk to the powers that be to see what she can do for you. Don't pester her. Wait up to 30 days for her to get back to you.

6. Show appreciation. Whatever raise your boss provides, show appreciation. You never know the political sacrifices she may have made on your behalf, even if the raise is disappointing. Remember that in a high unemployment world, your family will be very glad you got any raise at all.

7. Find an alternative. If the raise you are offered is inadequate, seek out an alternative by quietly testing the market. Pass your resume around, network, apply for a few open positions. If you get a bona fide offer that you really could take, you may want to give your boss one last chance to boost you up to the level of the offer. This often works.

8. Don't bluff. If you tell your boss you have an offer when you don't, be prepared to pack up your stuff and go home. Odds are good your boss will sniff out the bluff and her reaction may be very bad for your career.

9. Being underpaid isn't all bad. If you are underpaid and both you and your boss know it, there is one big advantage: in bad times, you will be the last person fired. Being the highest paid person in your department is like having a target painted on your chest. Not only will you be held to a higher standard of performance, you could be the first one to go in tough times.

For more guidance about asking for a raise, consider reading the book, *Indispensable by Monday*.

Bosses rarely appreciate their employees enough. You know that's true. It's also true that most employees don't appreciate their jobs enough. Be glad you've got one. Your family is.

When Is A Good Time To Ask For A Raise?

Sometimes knowing when to ask for a raise is the most important factor in determining whether or not you get one. The following is a list of signals that now could be a good time to ask for a raise:

1. You just completed a major project that had a major financial impact on the company —one that can be quantified in terms of new revenue, money saved, etc.

2. The company is hiring lots of new people (signaling revenue and profit growth).

3. The company just reported high profits and revenue growth.

4. Your department head was just promoted or lauded by senior management—she's in a good mood.

5. You just completed a milestone, an anniversary or other accomplishment that is customarily rewarded with a pay increase in your company.

6. Your company's stock price is near a high point.

7. You've recently accepted more responsibility and you're performing well.

8. You just completed a degree or certification relevant to your position.

9. You just got a job offer from a competing company.

The following is a list of signals that now is not a good time to ask for a raise.

1. You just turned down an "opportunity" to take on a big project or more responsibility.

2. Your company just laid off some of the people in your department.

3. Your company just reported disappointing financial results.

4. Your company's stock price is relatively low compared to the past.

5. Your department just missed a deadline on a big project.

6. The project you've been leading was just canceled.

7. Your colleagues report that they've not gotten raises either.

The following is a list of events that won't influence whether or not now is a good time to ask for an increase. Proceed with caution (check for the signals above):

1. You just bought a new car.

2. You just bought a home.

3. You just got married.

4. You just had a baby.

5. Your wife just had twins.

6. Your spouse or child is sick with a serious illness.

The best times to ask for a raise are when it will be easy for the company to give you the raise—when sales are growing and profits are up. Combine that with your own recent

accomplishments and you're in the cat bird's seat. When the company is struggling, or you've been struggling in your job, are times when it is especially scary to ask for a raise. When your boss is trying to decide whom to let go, is not a good time to ask for more money. There are many life events that make you desperately hope for a raise, but they have nothing to do with whether you deserve one or whether the company can afford one. If your boss is kind and you are a good employee, twins may get you a little raise. A new Camaro? No chance.

How to Get the Most for your Hard Work: 8 Career Tips

They call it work for a reason. It doesn't have to be miserable, but no one loves every minute of every day on the job. Sometimes work is hard.

What follows are some tips to help you make the most of your career:

1. Love your job. If you don't love it, like it. If you don't like it, pretend. If your boss believes you love your work, she'll treat you better by giving you more and better assignments, greater responsibility and—here's the key—more money.

2. Work hard. Working hard is a great American tradition. Own it. Show up on time. Don't dawdle. Don't chit-chat the day away. Stay on task. Do your best. Your boss will notice. It will matter. Bosses love, love, love to see people working hard.

3. Give your boss a break. Let's all understand each other; virtually no boss is ever as smart as the people who work for him. He can't do your job as well as you. Whatever got him to that position, it wasn't his ability to do your job; it was his ability to do his job. Cut him some slack. Thank him for constructive feedback. Greet him with a smile in the morning. Say "good-bye" on your way out. The more you demonstrate care and concern for him and his career, the more he'll care for you and yours.

4. Show up. It's often said that just showing up is half the battle. It really is. Show up on time. Stay for your entire shift. Don't be waiting at the door when the shift bell rings. Get your day's work done, tidy up your work area, and leave knowing that you put in a full day's work.

5. Be honest. Never lie to get a job. Don't lie on the job. Every job requires trust; there is no faster way to lose the respect of your boss than to lie to her. She'll know immediately or find out soon enough.

6. Be scrupulous with company assets. Take care of, protect, watch over and guard company assets. Don't treat the supply cabinet like your personal office supply store. Be conservative when traveling on the company dime; spend less than you're allowed. You'll earn points with your boss when you demonstrate as much concern for the company's resources as you show for your own. The raise you get will buy you plenty of paper clips.

7. Treat colleagues and subordinates well. Earn a well-deserved reputation for treating your colleagues and subordinates with respect. Never lose your temper. Listen more than you talk. Really listen (just being quiet while you strategize your response to whatever they say isn't listening). There is power in earning the respect of your colleagues. And there is no substitute.

8. Be patient. Your career will last for 30 to 40 years; don't expect to get three promotions every year. Enjoy the journey.

Being an outstanding employee, whether you work on the production line or in the corporate office is the surest way to have a job after the next round of layoffs or to get a raise that's more than the cost of living.

My company just gave me stock options. What now?

So, your company just granted you stock options. You may be wondering what they are, how they work and what you should do now.

First, let me congratulate you. Stock options may not make you rich, but if you don't do anything crazy, they can't hurt you.

Stock Options: Employee stock options are granted to key employees as incentives to help drive the value of the company up, which generally follows successful execution of the business plan. An option gives the employee the right—but not the obligation—to buy a share of company stock at a predetermined price (the strike price) for a term (usually five to ten years). At the end of the term, if the option has not been exercised (used to buy stock) it expires worthless.

Why Is That a Good Thing? The right, without the obligation, to buy stock is a good thing because you are not required to make any investment, to put any money at risk to participate in the increasing value of the company. For instance, if the strike price (the price at which you can buy shares of the company stock) is $1 and the stock price goes to $11, you have a profit baked in of $10 per share. If you were granted 1,000 shares, your value would be $10,000. That's a good thing.

Income is Taxable: When you exercise your options, the I.R.S. generally takes the view that you've had a taxable event. The taxable income is the difference between the value of the stock and the strike price. In our example of an $11 share price with a $1 strike price the taxable income would be $10—even if you don't sell the shares. Because this income is on top of all of your other income, it will be taxed at your marginal rate, the highest rate you'll pay in tax. That could easily represent one third of your option profit when you consider state and federal taxes.

Exercise When You Sell: Exercising (using your stock options to buy the stock) is a good idea only when you are ready to sell the shares of stock. Remember, even though your right to buy costs you nothing along the way, when you actually buy the shares, you will need to put up cash—unless you're ready to sell. So just wait until you are ready to sell. Generally, your company will work with a broker to arrange for you to exercise the options without putting up the cash if you immediately sell the shares. You can use the cash to pay the taxes due.

Exercise at Expiration: The only other time to consider exercising your options is at expiration. If you can't sell the shares (the company is private and there are no buyers) you may want to exercise your options, but do so with caution. If the options are about to expire and you are certain the value of the shares is much greater than the strike price, you may wish to exercise the options and buy the shares with your own cash. Remember, you'll need to not only pay the strike price, you'll need to pay the taxes, too.

If your salary is large and your options are potentially worth hundreds of thousands of dollars—or more—be sure to talk to your tax advisor about the stock options when they are granted.

How to Determine Whether or Not You Are Paid Fairly

You may have been working at your job so long that you haven't had a chance to test the market to see what your skills are worth. Looking for a new job can be scary and frustrating—especially if your family is counting on you as a provider. Before you decide to look for a new job just to see what you may be worth, consider using one or more of these tactics to determine whether or not you are being fairly paid at the job you've got.

1. *State Data:* Some states publish wage data for a variety of jobs by county or other geography. Washington State, for instance, publishes this data. You can quickly determine that cabinet makers in Spokane make an average of $14.30 per hour (last I checked).

2. *Bureau of Labor Statistics*: It shouldn't surprise you to learn that the Bureau of Labor Statistics tracks wage rates by job title. The data represents national averages and may not be applicable to your situation, but it would give you an idea. At last check, the data showed that the median annual salary for a CEO is $166,910, quite a bit less than the multi-million dollar compensation packages that we hear about in the news.

3. *Commercial Databases*: A variety of commercial web sites provide similar data, some of it more readily searchable with more specifics. For instance, CBSalary features a searchable database that provides local data in addition to national data. In just a few moments, I was able to learn that registered nurses in Providence, Rhode Island earn an average of $73,000 per year.

4. *Job Boards*: Many job postings make outrageous salary claims or provide no compensation information at all. Some, however, provide specific salary ranges. Check out job postings in your community at Craigslist.org or at Monster.com—or any of a variety of other job boards.

5. *Friends:* Asking friends about income is generally viewed as taboo. If, however, you have friends who do the same work as you, they may be quite willing to share (and may be unoffended by the question). Explain that you are trying to determine whether or not you are being paid a fair, market rate for your job. Chances are, you can collect a data point or two to get a sense of how well or fairly you're paid.

6. *Human Resources:* Most human resources departments maintain data about wage rates for every position in the company. Most also feel their charge includes making sure that employees are happy. In other words, the HR department knows whether or not you're being fairly paid and will probably give you a straight answer. If they don't think you're being paid what you're worth, your inquiry may start a discussion that will lead to a raise.

Once you have determined whether or not you're being paid fairly, you're in a position to do something. If you're not, the first step may be to ask for a raise. Be sure to consider the timing of such a request. Asking for more money when the company is not doing well, may not have a good outcome. Asking for a raise if you're not performing well will never have a good outcome. If your company is thriving and you're doing a great job, take courage in the data and ask for a raise.

I've been at my job for six months and hate it; should I quit?

Have you ever started a new job and realized very quickly that it was a mistake? (I have.) At one point or another in your career, it is likely to happen. You may make a thoughtful, even prayerful decision about finding a job and building a career and still make a mistake. What then?

If the position requires you to violate your personal moral code, the principles of integrity or other values you hold dear, you may simply have to quit and take your lumps. There are some things that are just more important than money.

On the other hand, if you simply don't like the work, can't stand the boss, or find the commute insufferable, then consider the following ideas for a transition.

1. Don't quit before you have a new job. Remember, you have a duty not only to yourself but to your family.

2. Quickly and quietly reach out to the company you left (if you'd consider going back). It is surprisingly common to see people return to former employers and have successful careers there.

3. Reach out to the other companies you were talking to before you took your current position. If they were impressed, perhaps they'll be pleased to hear from you.

4. Make sure your profile is up to date on LinkedIn, Facebook, Google+ and other social media sites, so that if anyone is looking for the skills you've got you're easy to find.

5. Be on your best behavior on-line. Engage actively with your friends and colleagues but always be respectful. Employers are carefully screening social media to learn about candidates; show them your best self.

6. Bide your time. If reaching out to your past employer and to the people you were considering before taking your current job doesn't land you a new position, you may wish to simply bide your time until you've clocked a year on the job—simply to establish your ability to persevere through a challenge.

7. Be quiet. When you're really ready to fire up a new job search, be quiet about it. As you talk to people about your search, ask them to keep it quiet.

8. Work your network. If you have a position that allows you to escape for an hour at lunch, make sure you use every day to talk to someone new outside the company. Reach out to old friends in an effort to catch up. Find out what's new with them. Offer to help. Tell them you are looking for a new opportunity.

9. Keep track of your efforts. JibberJobber is a web site you can use to track all of your networking, resumes sent, responses, interviews, etc.

10. Don't be discouraged. Remind yourself every day that everyone who ever looked for a job, heard "no" plenty of times. A "no" doesn't mean you are unemployable—you've got a job. A "no" doesn't mean you're ugly, dumb, or poorly educated. A "no" generally just means they don't have an open position. Keep your head up and keep looking.

When you have to go to work every day to a job you hate, keep in mind that things could be worse. You could be looking for a job without having one at all. A crummy job is generally better than no job—and a good job is likely just around the corner.

Five Ideas For Working From Home

The world of "work from home" opportunities is full of opportunity for the people who sign you up. Some are legitimate opportunities that will take years of hard work to develop; others are scams. More and more, however, there are real jobs available for people who work from home. Often such jobs are low paying, but as they require virtually no commuting expense, no office clothes, no lunches out with colleagues, you may be keeping more while earning less.

The following are ideas to help you find the right work-from-home opportunity for you and your family.

1. Professional services: if you are a lawyer, CPA , graphic designer or have an advanced degree in business or a related field, even if you've been out of the work force for a while, you may be able to begin making money. If you no longer have a network to approach, you can start by listing your services on Odesk.com, a web site for freelancers to ply their trade. Note than much of the competition is international from low wage countries so this is not likely to be a source for the best paying gigs, but it may be a way to get you started right now.

2. Call center jobs: visit monster.com, the giant job board, and search for "work from home call center" and you'll see a list of available jobs. If you search just "work from home" you'll see many more jobs. Research any work from home employer carefully. Do not pay fees to get a job. No legitimate employer will require you to pay the company!

3. Network marketing: many people love network marketing and make a good living at it. Many more do not. It is hard work and requires, above all, the ability to be a self-starter. If you are always busy, always organizing fundraisers, charity drives, and all the rest, you may be perfect. If you are following the plot of more than one soap opera, chances are network marketing will be a black hole for you.

4. Freelance writing: if you love to write, maybe you already have a blog with lots of followers, there may be an opportunity for you to earn some money with writing. There are lots of people out there willing to take your money to tell you how to make money, but actually earning a living as a freelance writer is tough. If you are thinking you'd love to write, but haven't written anything for publication—not even a blog post—in years, look somewhere else. There are too many people who are good writers desperate to make a living for you to compete if you aren't deadly serious about it. If you've written a novel and don't know what to do next, publish it on the Kindle and take it from there.

5. Freelance photography: Old school professional photographers are annoyed these days by the growing ranks of amateur photographers joining the professional ranks. They often refer to folks in this group as MWACs (Mom With A Camera). The fact remains, however, if you have good gear (really good gear) and talent, you may be able to at least support your hobby by looking for opportunities to shoot for a fee. Camera gear is very expensive and learning to shoot well takes years. If you don't yet know what a DSLR is, this probably isn't the path for you now.

These five ideas don't represent the full range of opportunities for working from home, but they may get you started thinking and researching opportunities that would appeal to

you. Just remember, if your goal is to earn a living, be careful when considering help from people who, for a fee, will tell you how to make a fortune working from home.

Making Working from Home Work

If you are one of the increasing numbers of people working from home, whether you telecommute to work with a Fortune 500 Company or you provide a freelance service from home, building good working habits to foster success in your career and as a parent can be tough. Here are some ideas to help you master your domain.

1. *Find a place to work.* One key is certainly finding a place to work and teaching your family to respect the time you spend in the place. There should be no other signal needed to your family that you don't want to be bothered than that you are in your "office." This can work even if your office is just your favorite chair in the living room and you're working on your laptop.

2. *Establish hours*. It is easy to establish hours that you'll be working; it is a lot harder to actually work those hours. It requires you to be disciplined about starting work on a schedule—even if there is no one around to enforce it. It also means that you have to quit work to "come home" and be with the family on schedule.

3. *Set phone rules*. You and your family need to know how to optimize the use of the phone. Even if you have separate lines, you may need to have a system or signal to indicate when making noise is not acceptable. While working at home is commonplace, it is still distracting to be on a phone call about work when children are whining for attention, playing loud music, or using noisy appliances.

4. *Take breaks*. You and your family will be happier if you emerge from your office once in a while for a respite. Use the time to catch up on what's going on around you. Be sure to share lots of hugs and kisses. These bursts of family time can replenish their emotional batteries—and yours!

5. *Make fridge rules, too*. Working at home features another distraction that is absent from most offices—a refrigerator full of all of your favorite food. Make sure that you set rules for yourself so that you don't eat your way into a larger size, blowing your budget at the same time. If need be, have your spouse help to enforce the rules.

6. *Get childcare*. Depending on your employer, you're being paid to do something other than care for the children. If your kids are still at an age where they require care, be sure to make appropriate arrangements. If that can happen in your home where you can still have interaction with them on your breaks, you'll still get many of the emotional benefits of working at home without all the distractions.

Working from home can be a big boost to budgets. Not only does it eliminate commuting expense, but it may also reduce expenses associated with eating out and dressing for the office. Making it work well can also bring families closer together.

My Spouse Makes $85,000 Per Year; I Make $15,000 Part Time; Can I Afford To Quit?

Here in the U.S., the tax code punishes the second income in a household in ways that few people understand. If you are earning just $15,000 per year, working part time, you may be surprised to learn that you not only can afford to quit—you may not be able to afford to keep working!

If you love your job and love working, the question of whether or not to work isn't purely financial. If, however, you hate working and only do it to help make ends meet each month, read this article carefully.

If your income is potentially optional, your income is the "marginal" income in the household that determines the tax bracket at which your income is taxed.

The effective tax rate on your spouse's income will be much lower than on yours. Your spouse sets the base and then your income is effectively added on top to be taxed at the highest rate applicable for your combined income. The particulars will vary by state and municipality, but the effective rate for your spouse could be lower than 15% on an $85,000 salary while your effective tax rate on $15,000 could be higher than 23%. Income tax alone doesn't wipe out your income; it just reduces the contribution of each hour you work.

Are you donating a fixed percentage of your income to a church or other charity? If so, that is further reducing the value of your work to your family budget. Of course, if you are working and choosing to donate to your church or other charity *keep it up*! (Thank you!)

You should now consider the impact of your work on household expenses. If you own a car specifically to allow you to get back and forth to work, you could be spending 100% of your net pay to take care of the car. If your car is old and your commute short and infrequent, that won't be the case. On the other hand, if you are driving a relatively new car, still making payments and have a long commute, you could be spending 100% of net pay to keep that car. An average new car costs $10,000 to $15,000 per year to own and operate, including depreciation, insurance, maintenance, fuel and interest on the loan.

There may be other expenses associated with your employment. Are you paying someone to watch your children while you work? Are you eating lunch out several times each week? Do you need nice clothes for your job that you wouldn't need if you didn't have the job? Are you paying a housekeeper? Anything you could cut out if you quit should be deducted from your income to determine how much you're contributing to the household budget.

If you can work at home in your sweats and your work imposes no expenses on your household, even if you work for a modest wage, you may be contributing a great deal.

If when you're done doing the math you conclude that you can't afford to keep working, I wouldn't be surprised. You may find that you are contributing modestly to your household budget, but that when you really add everything up, it isn't worth the time away from your family.

You're An Open Book. Make Sure It's One Worth Reading!

Everyone in the world, it seems, is just a little bit famous. Facebook, Twitter, LinkedIn, Google+, and even the email we write expose parts of ourselves that a generation ago would have been private. This is wonderful and fun in so many ways. How would we live if we didn't know what our friends were eating for lunch? When it comes time to find a job, however, you'll want your on-line persona to be as employable as you are! (Bonus question: how long until your children will be old enough to view your page?)

It may be a little creepy thinking of prospective employers scouring Facebook for clues about you, but everything you tag as public will be available to them and anything available to your friends would be available to anyone who could become a future employer. Do you have colleagues from work as Facebook friends? Could one leave for a job where she could be in a position to hire you? Your LinkedIn profile, if you have one (and you should have one) is an employer's first social networking stop, but it won't be their last. They'll search for you on every major platform.

The following are tips to make sure that your public profile is ready for human resources:

1. *Update your LinkedIn profile*. Don't let it get stale. Make sure it is as professional and polished as a resume.

2. *Clean up your Facebook profile*. Some of the things you thought were clever may not seem so clever to human resources. Review your profile and your posts to be certain there is nothing there that you wouldn't say in the office.

3. *Limit your political rants*. Facebook is for most people the only public platform available for ranting about politics. Many fall into the habit. Not only does a political rant offend about half of your friends, it likely offends about half of the employers. If you must advocate for a candidate, be positive 100% of the time—never tear down other people that someone else admires. Better rule: never tear down other people.

4. *Eliminate bigotry from your pages*. Employers are required to prevent discrimination in the workplace. If a candidate employer gets the impression from a joke you liked or a photo you shared on Facebook that you are a bigot, your chance of getting a job goes out the window.

5. *Eliminate sexual and "adult" language*. Sexual images and adult language—language many people still call offensive—may contribute to a hostile work environment. In other words, such talk and imagery could be considered sexual harassment in the workplace. Dump it before an employer dumps your resume in the trash.

6. *Don't trash your employer*. Your next employer won't want to get trashed on the Internet so don't trash the employer you've got. The fastest way to get your resume trashed is to trash the very people who pay you so you can afford to be on Facebook.

7. *Write a blog*. Write a blog about your expertise. Use the blog to demonstrate your knowledge. A blog gives you a formal place to show off. Post links to your blog posts on Facebook, LinkedIn, Twitter and other social networking sites where you have profiles.

Focus future employers on your capabilities to distract them from the simply silly photos of you with your kids at the beach.

8. *Clean up the email*. Get out of the habit of forwarding silly, political, sappy and other emails to everyone in your address book. This old habit is largely dying out anyway (I only get forwards from my friends over 60), but don't get caught forwarding something offensive or false. Trust me; you won't actually have bad luck even if you don't forward this message to ten friends right now.

By following these tips, you prepare yourself for the almost inevitable next job search. Form good social networking habits today so that there will be less to clean up if you are ever looking for a job again. Remember, too, that many of the best jobs come up when you're not looking. Keeping yourself clean has a whole new meaning for our generation.

I've always been self-employed; can I even get a job?

You might be surprised. Even if you can't remember the last time you got a paycheck from someone else, you are likely to find you are easily employed.

Consider the skills you've learned by being on your own:

1. Management: Everyone who is self-employed learns to manage projects and those who have employees also learn to manage people.

2. Self-discipline: Bosses love self-starters. They love people who show up in the morning and start work without being told what to do. Not everyone knows how to do that, but everyone who's been working independently has mastered the skill.

3. Hard work: Having danced back and forth between self-employment and working for others for my entire career, it is clear to me that I never work harder than I do when I'm working for myself. Employers simply don't expect as much as you do when your livelihood hangs in the balance.

4. Results: For the self-employed, you can't make it from one month to the next—forget making it for years—without getting results. Whatever your field, if you're accustomed to getting results, someone will be eager to hire you.

5. Determination: Persistence, doggedness, stick-to-it-iveness, whatever you call it is a skill learned through years of going it alone. That attitude is invaluable and employers will pay up for the privilege of having an employee who can demonstrate the talent.

Here are some tips for finding the right job:

1. Update your resume: It may be a long time since you've had to update a formal resume. If that's the case, it is a good idea to get help. You probably have talent that you don't see clearly; a professional resume coach can help you put it all on paper in a way that will represent you well.

2. Network: Your existing professional network is ready to work for you. If you've developed relationships over the past decades of being self-employed, no matter the reason you're now looking to work for someone else, those relationships will be ready to serve you. Reach out to your clients and customers, your vendors and advisors and even to your peers and competitors. Tell them what you're doing and most will be excited to help. In fact, many will think you are helping them to solve a problem. Your talents are valuable.

3. Social Network: If you've been going it alone for the last decade you certainly know al about social networks like Linkedin and Facebook. Be sure to let people know that you are available for a full time opportunity. You'll find people ready to help immediately.

Finally, a few tips for starting work as an employee (again):

1. The Boss: The hardest part about having a job is having a boss. It's generally not so bad. You were a good boss, right? There are lots of good bosses out there. Good bosses value your experience and wisdom; they won't ride you like a newbie. Be patient with your boss. If you show her respect, she'll respect you, too.

2. The Schedule: Working on your own your time was your own to manage. There are different expectations in an office. Be sure you understand the cultural norms around the work schedule before you find yourself violating them. Some offices that post an 8:30 start time see everyone rolling into the office at 9:00. Others see everyone there at 8:00. Get a good read on the situation before you find yourself getting chewed out.

3. Colleagues: Now that you have peers and colleagues again, make it a point to get to know them. Make friends. Offer to help. Show deference and respect. The more you do this the more that will come back to you.

Returning to the world of employment after years of self-employment or freelancing can be a difficult transition, but you have a great deal to offer. Your network can help you find a place quickly.

Chapter 6

Increasing Your Savings

It Wasn’t Raining When Noah Built The Ark

Some people find themselves in real financial trouble without a rainy day fund with relatively small problems, perhaps in part due to a naïve hope that the rain will never come. As surely as the sun comes up in the morning, the rain will eventually come. Could any of these problems happen to you?

1. Your child needs braces. Or she is accepted for study abroad. Or he makes the football team and has to pay for his own gear.

2. The transmission fails. Or the engine. Or the brakes, tires, air conditioner, or starter motor.

3. The old refrigerator dies. Or the dishwasher, washing machine, dryer or other household appliance.

4. You twist your ankle, requiring an emergency room visit and three days off work. Or your appendix bursts. Or, heaven forbid, your heart.

5. Johnny loses his rented trumpet, meaning that he not only needs to pay for the one he lost but needs to rent a new one.

6. You get laid off work.

7. Your home is damaged in a storm and you have a $500 deductible. Or your home is flooded but you have no flood insurance at all.

8. Your husband is involved in an accident with an uninsured driver and your insurance won’t pay for the rental car you’ll need for two weeks while your car is repaired.

9. You’re mugged at an ATM pulling out $400 for the week. Or walking out of the bank after cashing your $1200 paycheck.

10. Your laptop, smartphone, tablet computer or other device jumps into the bathtub with your four-year-old—all by itself.

Life isn’t fair. Sometimes it is downright unfair. Some of these problems could require tens of thousands of dollars to fix, but many can be corrected or mitigated with just a few thousand dollars.

The key to financial disaster preparedness is to have some savings where you can get to it when you need it. When you use it—in a real pinch—be sure to focus on replenishing it as soon as possible.

You know the old saying that it wasn’t raining when Noah built the ark. If you are young, you may not yet have tripped over any of life’s little problems, but surely they will come. While it would be great if we could all have a million dollars in the bank, the truth is we can get a lot of practical protection from having just a few thousand dollars in a savings account where we can get it at any time the rain starts to fall.

Save for what? Six Savings Objectives That May Apply To You Today

Most people understand that they should be saving for the future, but may lack a clear sense of what to be saving for and how. Here are the answers:

1. Retirement. Even if you never want to retire, you should plan for the possibility that you will either change your mind or not have the option. If you live to be 102, do you really think you'll still be working? Start saving for retirement using your 401k at work or an IRA at your bank or stock brokerage. This savings should be held sacred, never to be touched until retirement. Tax laws allow you to use these funds for a down payment on a home under some circumstances; be cautious with that! Leave room in your budget to continue saving for retirement.

2. College. You'll want your children to attend college, to get the most out of their lives. It takes good grades, self-discipline and a shocking amount of money. Start saving for their college education at the later of the day they are each born or today! You can get some small tax advantages by using 529 plans that protect the earnings in the accounts from taxes; check it out.

3. A new car. It certainly sounds a lot more fun to be saving for a car than for retirement. You can drive a new car. If you buy a new car with the value of your trade in combined with your savings rather than borrowing the money, driving the car will be a lot more fun. You don't want to work for your car—that's slavery. You want your car to work for you!

4. Vacation. Can you imagine paying for a vacation five or ten years after you took it? That can't be fun, but plenty of people do it when they put the vacation on a credit card. The vacation is over in seven days, but the misery of paying for it can last for years. If you save for a vacation instead, the trip will be more fun and there will be no financial hangover!

5. Rainy day. By saving money for a rainy day, separate from your new car and a vacation, you'll protect those dreams. If you suddenly need a new transmission for the car, that could set back your plans to buy a new car by a year or more if you don't have some rainy day money around. Optimally, your rainy day account would have enough to cover a year of expenses so it can cover an extended period of unemployment.

6. Other. There is no reason on earth not to save up for other things you want or for no reason at all. Having money will give you the power to do more good in the world. Keep saving!

Eight Tips To Start Saving Now!

Everyone wants to save money but even I will admit that it takes super human strength to do it. Whether you need to be saving for your kids' college education or your own retirement or both, here are some tips to help you develop those saving muscles:

1. Do nothing for 30 days! The easiest way to kick off your savings plan is to agree with your family to spend no money at all on entertainment or eating out for 30 days. Take all the money you save to the bank—you'll be amazed at how much that is! Be sure to plan lots of free activities like outings to the park, long walks, picnics, and the like so you don't go stir crazy at home.

2. Sign up for the 401k at work or increase your contribution. Surprisingly, many people do not participate in their company 401k plan and miss out on tremendous tax breaks as well as the benefit of saving for retirement. Participating in the 401k is a great way to save because you'll never see the money in your wallet so you'll never be tempted to spend it!

3. Open a savings account at the bank today. If you don't already have a savings account, separate from your checking account, go to the bank today and open the account. Put something in the account, even if it is just five dollars. The most important thing is to start today; don't wait.

4. Sell something you no longer want on Craigslist or Ebay and put the money straight into savings. Not only will you get rid of something you don't need, you'll launch your savings plan at the same time.

5. Identify three things you do regularly that you could do for less money another way with no material impact on your happiness, like having a cup of water with lunch instead of a diet soda—same calories, right? Perhaps you can choose to see movies at the 5:00 matinee rather than the 7:00 show and eat dinner afterward rather than before. Try to find $25 per week that you can give up painlessly and suddenly you've found $100 for your savings account every month!

6. Use a daily deal offering from Groupon or LivingSocial to get a dinner you'd buy anyway at half price. Remember it isn't saving you anything if you buy daily deal coupons for things you wouldn't have bought anyway at full price!

7. Use public transportation to get to work or run other routine errands. With gas prices where they are, you can quickly save the cost of the fare by taking a bus or train in most metropolitan areas and chances are you can relax more, too. Grab that book you've been meaning to read!

8. Walk or ride your bike somewhere you'd normally drive. Get the benefit of some exercise, save the environment and save a few bucks. The IRS estimates that it costs more than fifty cents per mile to operate a typical car. If you walk or ride your bike for the shortest trips, the savings will add up quickly.

As you review this list, you'll note some things that you can do immediately. Estimate the financial benefits for your situation and commit yourself to saving as much as you can this very month and then keep saving every month!

Kick Off Your Savings Plan By Doing Nothing!

If you find yourself wishing every month that you could save just a little bit but never seem to be able to put anything away for the future, try doing nothing for thirty days. Enlist the help of everyone in the family and for one month, go on a spending fast. Of course there are many—probably most things you do—that you can't stop doing, but many things you can quit altogether for thirty days.

Consider going one month without any of the following:

1. Movies. For one month, you could go without paying to see, rent, watch, view or going to a single movie. Your eyes would not fall out. Your heart would not cease to beat. You could spend exactly zero on movies for one month.

2. Fine dining. You could easily go for a single month without eating over white linens. Most people enjoy the treat of a fine meal once in a while—some more often than others. There is nothing wrong with it, but skipping the white linen tables for a month may make quite a contribution to your savings account.

3. Clothes. Everyone needs to buy new clothes periodically. Clothes wear out and must be replaced. Most of us, however, have plenty of clothes and can easily go without buying any new clothes for a month. While that may just serve to defer some spending, you might be surprised at how little of that month's clothing budget actually does get spent in future periods. Ask yourself whether your last clothing purchase was really to replace something worn out or if it was just an addition to your wardrobe.

4. Entertainment. For one month, you could go without attending a sporting event, the ballet, the symphony, the opera or the theater. If you never attend these sorts of events, think how easy your spending fast will be!

5. Sports. For one month, don't pay anything to do sports. This month, no new running shoes, no new bicycle shorts, no golfing, no new softball mitt. Put it off for 30 days.

6. Fast food. For all but the snootiest of us, this will be a challenge. For just one month, see if you can go without fast food. No single trip to a fast food joint will save much money, but if you're like most people, you're making several trips each week. Skip them for a month; eat at home or brown bag it when you're away from home. You'll not only save a few pennies, you'll probably be healthier, too.

7. Magazines. For one month, you can skip magazines. Don't buy them from the newsstand and when the renewal notices come, don't do it. Wait (you'll probably get a better renewal offer if you wait anyway).

8. Vacation. Of course, you don't want to plan your spending fast to kick off your savings during a month when you'll be taking a vacation. More to the point, don't take one of those quick, getaway weekends during your fast. Stick close to home.

By eliminating or deferring spending for 30 days, you can give yourself a much needed kick in the savings account. You may be able to cut back $500 or $1000 in a single month, allowing you to make a significant contribution to start your savings account. Harness your new found self-discipline to cut back a bit on future spending so you can contribute $100 or $200 every month to your savings account. You'll thank yourself!

How Do I Come Up With $25,000 In A Crisis?

Tragically, life will sometimes present you with seemingly insurmountable problems. Sometimes, life's tragedies come with a price tag. A big price tag.

Imagine your child fighting a battle with cancer that, despite insurance, requires you to pay $25,000 for medical bills. Could you imagine having a son or daughter with a drug problem? Have you ever checked out the cost of rehab? How would you come up with the money? The following ideas may help you to survive the financial side of a personal tragedy.

1. *Plan ahead.* The surest way to be ready for this sort of crisis is to have a significant cash reserve. Maintaining a one year cushion should be your goal. That cushion can absorb all sorts of crises, allowing you to focus on the human side of a crisis rather than the financial side.

2. *Insure the risks you can.* You can't insure against every risk, but you can insure many risks. Don't hang on to risks you can't afford. Talk to your insurance agent today.

3. *Use your retirement savings*. Don't use your retirement savings to replace your car after an accident—that isn't a real crisis. Don't use your retirement savings to fund elective surgery—it's not a crisis. In a real emergency, however, you may be able to borrow from your 401k without penalty. You can always withdraw money from an IRA, but be prepared to pay the 10% penalty plus tax.

4. *Borrow against your home equity*. Home equity is fleeting. Borrowing against it is risky and unwise in all but the direst circumstances. Don't borrow against your home to buy a new car or pay for a vacation. Be cautious about borrowing for home improvements—improvement is in the eye of the beholder. If you don't have the ability to borrow from your 401k in a crisis, your home equity may be a refuge.

5. *Try crowdfunding*. There are countless web sites for people to raise money from their friends for all sorts of causes, from movies to charitable causes. One of these sites, GoFundMe, is focused on helping people raise money from their friends in a crisis. You'll be amazed at what your friends are willing to do for you in a pinch.

6. *Work out a plan*. Sometimes the nature of the crisis, say a big medical bill for a now resolved (or ended) health problem, leaves you with a big pile of bills. You may be able to work out a payment plan with the key healthcare providers. If you've been wiped out, they really don't have a choice but to accept your plan.

7. *Consider bankruptcy*. Filing bankruptcy won't provide the resources you need to put your teen in rehab, but it will stop the calls and end the pain associated with a big medical bill. Talk to a bankruptcy attorney if your assets and income just aren't sufficient to deal with the piles of bills your crisis created. Prudent living can help you avoid bankruptcy, but sometimes there simply is no alternative through no fault of your own.

Solving the financial problems associated with a family crisis can be daunting and every discussion around money feels like salt being rubbed in the wound. By doing your best and drawing upon the first six items in the plan above, you can generally avoid the seventh. It may seem overwhelming, but you can get through it.

Wiped Out and Starting Over

Many families find themselves with a special sort of mid-life crisis; rather than struggling with which sports car will best restore youth, some must start over financially after enduring a financial tsunami. If you're in that boat, don't worry; there is hope.

Consider the following plan to get back on track with your family finances.

1. Homeownership: If you are trying to get back on track financially after a bankruptcy or other financial disaster that has destroyed your good credit, buying a home could be up to seven years away. Homes are great places to raise families, but mediocre investments. Don't be frustrated needlessly. Rather than buy a home much sooner and pay extraordinary interest rates, consider focusing a portion of your income on saving for a big down payment over the years so that when you buy a home, it will be one that you can stay in until you retire. If your credit survived your financial troubles, make getting back into a home soon your top financial priority. When you buy a home, try to finance it with a loan that will be completely paid off by the time you retire—probably less than 30 years.

2. Credit: If your credit has been blown up by your financial disaster, count it as a blessing. Being forced to operate without credit for a few years while you restore your credit can be a good thing. If you can't borrow money, you won't have to pay any interest. Even if you can borrow money, don't. Be patient. All you lost that's really important can be reassembled with time.

3. College Savings: In any real financial disaster, the college savings get blown away. That doesn't prevent your children from becoming teenagers ready to start collge. Whatever your college plans were, you need to sit down with your kids and talk about the new realities. Unless their grades will likely entitle them to scholarships that will pay for college, help them develop plans to fund college on their own. If possible, you may invite them to live at home while they are students—a huge contribution to their total college expense. They can be responsible for tuition. Tax credits, grants, and needs-based scholarships, combined with part-time jobs, may get them through local public college programs and leave them college graduates in four years without student loans.

4. Retirement: If you had good retirement savings before your financial disaster, you may still have them. Bankruptcy laws protect some of those assets. If so, great. Start contributing to your savings again—if you've stopped—and move on. If your retirement savings have been wiped out, you'll need to make retirement savings a top priority. You may want to begin now to think about delaying retirement a few years passed when you'd originally intended to give yourself more time to save. It's better to work a few extra years in your sixties than to starve in your eighties.

5. Car: Don't fall into the trap of financing a car as soon as you come out of the dark tunnel of your financial catastrophe. Drive an old clunker, rent cars by the hour, take public transit, just don't go out and buy a car that you can finance. The entire model for financing folks with bad credit is built around two principles: make folks overpay for the car and then make them pay a high rate of interest. You can earn the same return on your investments that folks with great credit can. Take advantage of that and start saving for a

car purchase. Don’t let the car you drive define you. Let your financial wisdom define you.

With these five key guidelines, you can put your financial troubles behind you and build a happy and contented life.

Chapter 7

Getting Out of Debt

How Do I Know if I Have Too Much Debt?

It wasn't so long ago that it was almost impossible to have too much consumer debt because no one would lend you money you couldn't afford to repay. Over the last generation, however, that changed. Credit card companies figured out that they could develop loyal customers early by issuing credit cards to college students—people with no income. It only got worse from there.

In 2008, virtually everyone with too much debt figured it out. Credit dried up, asset prices withered, and consumers filed for bankruptcy in unprecedented numbers.

As the economy recovers and credit becomes available again, you need to protect yourself from borrowing too much.

The first sign that you have too much debt is when you have to use one credit card to pay off the balance on other one. I was a young married, twenty-plus years ago when I first saw "I pay my Visa with my Mastercard" on a bumper sticker. For many, this has been a financial planning tool.

(Let's be clear, in many, many ways it is better to pay your obligations with borrowed money than not to pay, but let it be a clear warning sign that you are in too deep.)

Bankers use the word "fungible" to describe money's interchangeability. One crumpled old dollar is worth the same and can be used just like three quarters, a dime and three nickels, just the same as a one-dollar charge on your credit card or a one-dollar withdrawal from the bank. It all works the same.

One implication of this is that you may not even realize that you are paying your Visa with your Mastercard! If you charge virtually everything as so many of us do each month and your credit card balances are rising, you are effectively borrowing money each month, you are effectively borrowing the money to make your credit card payments—even if you don't literally use one card to pay another.

In the U.S., the tax code is progressive, meaning that the more you earn, the greater percentage of your income goes to taxes. The less you earn, the greater percentage of your income is spent on necessities. One thing tends to hold constant for virtually all households. Only 40% of your income can be allocated to debt payments, including housing. If the total of your monthly debt payments, including rent, is greater than 40% of your income you likely can't afford to make all of your payments and you're borrowing more every month to make ends meet.

Add up all of your monthly payments, including rent, but excluding utilities. When you divide that total by the gross amount of your paycheck, is the result less that 40%? If not, you likely have too much debt and should immediately develop a plan to cut the balances down to size.

Be careful not to go too easy on yourself. It is relatively easy to find cheaper sources of money that can be repaid over longer periods of time, but that is a sure way to add to your problems in the long term. Instead, focus on paying off your debts one at a time, starting with the littlest ones first!

How Having More Won't Necessarily Make You Happier

There is a growing body of research that suggests that having more money doesn't make you happier, once you have enough.

Granted, "enough" is hard to define, but most of us in America do have enough.

Most of us want more and that can hurt us in two ways. Ask yourself if either of these apply to you.

First, some of us spend so much time wanting more that we focus our lives around the acquisition of ever-greater amounts of money. That may manifest itself as picking up extra shifts to make a few extra bucks—regardless of the impact it may have on the family—or perhaps as violating one's own moral code to do a deal to make some extra money. Some folks have invested college funds and retirement savings in high-risk ventures that they didn't fully understand, ultimately leaving the family broke rather than well off.

The fact is that much of the effort we make to earn more money at the margin comes at a higher cost than we would choose to pay in hindsight. That isn't to say that hard work isn't required in life—it is. For every person born with a silver spoon in his mouth, a million others are born without one.

Ask yourself, what am I giving up to get ahead? If you don't like the answer, don't keep chasing that dream. Find a purpose and a passion in your life that will enrich your family without requiring a lot of money.

The second way in which wanting more harms us is when we spend our future income (worse when we spend uncertain future income). When we borrow money to buy something we want but can't afford now, we rob ourselves of future opportunities in myriad ways.

For instance, if we borrow $2,000 for a vacation that we can't afford, once the vacation is over, we have nothing but memories. For months, or perhaps years, we'll be paying for that vacation, sacrificing countless other things because we chose to spend money we didn't have. When you consider that with interest, the $2,000 could easily become $2,500, we would be giving up 500 future $5 purchases.

Every time we have to say to ourselves, I can't spend five lousy bucks on this because I took that vacation, the memory of that vacation will be tarnished.

When borrowing for the future becomes a pattern rather than the exception, bills mount, interest compounds and misery ensues. Money didn't buy happiness; it bought sorrow.

How to Manage Your Credit Cards and Not Be Managed By Them

Credit cards are magical devices that allow us to buy things without having our money with us. Protected in the U.S. by great regulations that prevent the user from suffering losses associated with stolen cards—if reported promptly—credit cards make spending money so much easier. But that's the problem.

Credit cards allow us to buy stuff we can't afford. We think we can afford them if the credit card works, but that's almost as naïve as believing that there is still money in the checking account as long as there are checks in the checkbook. (If you're under 25 you may need to ask your Mom about that.)

Credit cards can be powerful tools. Given the regulations that govern them, using credit cards is safer than using debit cards, which lack some of the protections of credit cards. So how do you manage your credit card spending?

First, like the old slogan for knowing your limits in a bar, "know when to say when." When is when the balance on your credit cards exceeds the cash in your checking account. You really need to think of your credit cards like debit cards. Once you've spent the cash, you need to stop.

This requires that you keep track of both your checking balance and your total credit card balances. If that is a challenge for you, try using Mint.com. You can not only track your balances in real time, the system will send you emails when you spend too much!

If you already have balances on your credit cards that you can't pay with the cash in your checking account, you need to get those balances down. If you can afford to make all of the payments without borrowing money somewhere each month, focus on that and pay a little extra each month on the smallest balance to get rid of it first, freeing up more cash for the next one and so on.

Set a limit on spending with your spouse. Both of you should check the statement to be sure that no one cheated (that no one went over the limit without permission).

If you can't control your credit card spending, get creative; people use a variety of gimmicks to prevent themselves from abusing the cards. Don't carry them with you. You can't use them if you don't have them.

As a last resort, you can call the credit card company and ask them to close the account to new charges while you pay the balance down and then you can cancel it altogether!

If you find yourself borrowing each month to pay off the credit cards, perhaps using the Visa to pay off the Mastercard, it's time to get serious. In that situation, you should be thinking of things to sell to get your balances under control and your debt to a manageable level.

You can do it. You can manage your money. Don't let it control you!

Why is credit card debt so bad?

Credit cards are wonderful. A credit card can save your life. Without having to carry money, you enable yourself to buy something—almost anything—in the very moment you need it. If that thing happens to be an ambulance ride, it could literally save your life. But, the debt that accumulates as a result of credit card purchases can weigh you down like an anchor.

Because credit cards are so easy to get and easy to use, they seem harmless—even helpful. Many people use cards seasonally for vacation or holiday shopping and manage each year to pay off the seasonal debt before the next year rolls around (just a few thousand dollars of saving could eliminate hundreds of dollars wasted on interest each year). Others fare even worse. Some people are unable to stop spending when their ability to repay is reached and the debt begins to mount.

Credit cards are designed to be flexible. They feature low minimum payments that in some cases barely cover the interest charges with the result that a $10,000 credit card balance could theoretically take decades to repay. As a result, their flexibility becomes part of the problem.

They also feature relatively high interest rates. If your card has a grace period, you'll likely be paying more than 12 percent annual interest (if you have good credit). If your credit is marginal, you could easily be paying above 20 percent. If you make late payments, you could be paying more than 24 percent interest. Compare that to a mortgage or a car loan at around four percent.

Credit card interest, unlike mortgage interest is not tax deductible. This makes it effectively more expensive.

If you allow your credit card issuer(s) to tell you when you can stop spending by bumping up against your limit, you may be able to control your spending, but at a high cost. If you could instead control your spending at the level allowed by your income supports with no credit card debt—that is, if you didn't have the credit card loans on which you're paying that interest, you'd have much more money to spend.

For instance, if your credit card limit is $10,000 and you keep your balance near that level, without paying it off each month, you could be paying about $200 each month for interest. That adds up to $2,400 per year. That's a lot of wasted money. Would that fund a nice vacation for your family? How about a nice Christmas?

Even when you're in control, credit card debt may be taxing you painfully. If you're out of control, you're constantly applying for new cards, asking to have your limits raised and otherwise adding to your credit card balances every single month, you may be headed for a financial cliff without realizing it. One day, there will be no more credit available and you may go right off the edge.

Credit cards are wonderful devices that facilitate safe spending. Even having a source of emergency credit makes sense and is part of prudent family living. Borrowing on credit cards seasonally isn't the best way to pay for seasonal expenses—savings is. Borrowing just a little bit more every month is painful, slow financial suicide. Step away from the cliff. Get control of your credit card debt before it gets control of you.

How borrowing money each month can quickly ruin your finances

It isn't unusual for a family to come up a little short at the end of the month. How a family handles that situation may matter more than you think.

If your family comes up short by $100 every month and borrows that money on a credit card with 12% interest, the deficit in the second month will have grown to $101. The next month, the shortfall will have grown to a bit more than $102. Within a year, the shortfall will be $113. After two year years, $127 and after three years, $143. You'll also have a new debt totaling $4,308 at the end of 36 months.

If you borrow the money on a more expensive credit card, say one with a 24% interest rate, after three years the monthly deficit will have grown to $204 per month. At the higher interest rate, your debt will have grown to $5,200 instead.

These numbers are tame compared to what would happen if you start using payday loans to close the gap in your budget. Payday loans often feature fees and terms that bring the interest rate far above 100% per year. If you use 200% as a low estimate of the cost, after one year your monthly shortfall will have grown to $636 per month and your balance after just one year would be a scary $3,215. Long before three years, your loan balance would exceed what any payday lender would advance.

This discussion highlights the importance of a budget to control your spending and the need for the family to make some joint sacrifices, if need be, at the end of the month to avoid borrowing money you won't have the wherewithal to repay.

If you run out of money for the last three days of the month, think about the things you can do to get through those days.

• Have you got some emergency food stored so you don't have to shop, including a bit of powdered milk and other staples to get you through a pinch?

• Can you park the car, walk, ride a bike or carpool with friends to get to school and work so you don't need to borrow money for gas?

• Can you put off the purchase of new clothes for a few days until the next paycheck?

• Is there a food pantry in your church or community that would help out with some meals?

• Wouldn't your parents love to feed their grandchildren—and you—dinner one night?

• Most utilities have programs to help people who are struggling to keep their utilities on; call them to see if you qualify this month?

Debt can be a bridge to nowhere. If you don't know where the money to repay the debt is coming from, that's exactly what it is. A bridge to nowhere is a bridge you don't want to take!

Deep in Debt? Tips for Negotiating with Creditors

If you are deep in debt you know that there are few things worse in the world. The constant worry and the hounding of creditors are ruining your life. If you are prepared to do what it takes to get out of debt and change your life permanently, you may be in the right frame of mind to renegotiate the terms of some of your debt.

This article would be especially helpful for people who have experienced a financial crisis such as a failed business, an illness or other financial shock. If you've simply accumulated too much debt over the years, you can use these steps, too, but you've got to be prepared to change your ways and convince your creditors of that.

Here are some tips to help you renegotiate what you owe.

1. *Do it yourself*. There are lots of people who will be willing to help you with this for a fee, including some non-profit agencies that can truly be a help in these situations. Save the money and do it yourself. You are likely to end up in a better place as you'll not be paying any fees so more money can go to your creditors. If you fail on your own, you can always get help from a reputable non-profit agency later.

2. *Explain your situation to each creditor*. With each person to whom you owe money, make a personal phone call. Explain your situation. Help them understand why you cannot make the payments as scheduled. Be sure to explain how you'll avoid further problems and why, once you've straightened things out with everyone, you'll never be back in this situation again.

3. *Propose a plan*. With each creditor, give an honest and fair proposal for how you'll eventually pay what you owe. Generally, your proposal will be a function of two things: lower monthly payments and lower interest. In some cases—perhaps all—you'll have to propose complete interest forgiveness. In some cases, you may even need to propose that some of the principal be forgiven.

4. *Expect to be rejected*. Your proposals will often be rejected. Remember, this is a negotiation. You owe the money and the creditor is entitled to collect it. If there is no possible way for all of your creditors to collect what is owed, eventually you should be able to convince them that they will have to accept less than the scheduled payments—at least for now.

5. *Be persistent*. You may have to call some creditors over and over again to find the right person and work out an acceptable plan.

6. *Be complete*. As you negotiate with each creditor, be honest with yourself and the creditor. If you can't make the payments they propose when you look at the sum of all your payments, tell them so. Keep pushing for something that will work—remembering the entire picture.

7. *Prioritize*. Your creditors aren't all in the same position. If you have a mortgage, that lender is in pretty good shape and may not have much reason to renegotiate with you. If you owe as much (or more) than the house is worth, you may want to offer to give them the house in satisfaction of the loan and move to a more affordable rental situation. If you owe more on a car than it is worth, offer to give it back while it is in good shape and

marketable, allowing them to avoid the cost of repossessing it. They are unlikely to let you keep it if you can't make the full payments. Sell the car if it is worth more than the loan, using the extra cash to pay off other creditors or to buy a clunker. Your unsecured creditors will ultimately have to accept what you give them. While they may be due $10,000 from you, you can only give them what you have and what you'll earn.

Ultimately, if you cannot negotiate plans with all of your creditors that will allow you to meet the obligations to each and every one of them on adjusted terms, you may be a candidate for bankruptcy. Talk to an attorney.

Living With One Loan; How to Simplify Your Life

Life is simpler with little or no debt. If you can organize your life so that you can have only one loan—your mortgage—you'll find yourself saving more money and better preparing your kids for college and yourselves for retirement.

Here are some simple guidelines to help you live with just one loan:

1. *Stay out of debt as much as possible*. It is virtually impossible to buy a home where you can raise your kids without borrowing the money. Nothing else, however, is nearly so difficult to buy without debt. Stick to your guns. Save your cash and buy only what you can afford.

2. *Pay off the credit cards.* Pay off your credit cards first. Pay a little extra each month on the card with the smallest balance. When it's paid off, take the extra you were paying plus the paid off card's payment and apply that to the next card. Using this pattern you can accelerate your debt reduction plan.

3. *Pay off the car.* If you've got a car loan now, promise yourself that this will be the last one. When the car is paid off, keep making the payments into savings. Never buy a car again with debt, use your car savings account instead.

4. *Save for the things you want.* Everyone wants more stuff. Everyone wants more stuff now. The difference between those who have money and those who have debts is often simply a matter of timing. Waiting a few months to save up for the thing you want—or even need—will empower your spending with earned interest rather that taxing it with interest you pay.

5. *Stay in your home.* If you choose to stay in your home after you reach a point where you could buy a bigger, nicer one, you'll allow yourself more room to be saving each month. This way, you'll have the cash to pay for things you want and need—including college for the kids and retirement for you. Ironically, it will be easier to live with one small loan than one big loan.

6. *Don't consolidate.* I know that some people were hoping to get tips on consolidating debt into one loan, but that strategy is literally too easy. Doing that will rob you of the discipline you need to develop to save your money and will almost certainly fail. One consolidation would be followed by the next and eventually, there would simply be too much to consolidate and the weight of it will overwhelm you.

7. *Life frugally.* If you combine the basic steps above with a pattern of frugal living, you'll find the cash around you beginning to accumulate. We've all met rich people we've caught buying groceries with coupons, arguing with the checkout person about a few pennies. Have you ever thought about how they got so rich? You don't have to be a jerk to be frugal, but for most of us, being frugal is the only way to get rich.

You and your family will benefit from a goal to live your entire lives with just one loan. Get to the one loan place as soon as you can and you'll quickly find yourself thinking about becoming a no-loan family.

Too much debt? Eight Steps to Get Control!

This article is not intended for the folks who'd like to have less debt—or no debt—this article is for people who are in real trouble, those who may be thinking of bankruptcy, and for others who may not yet know they have too much debt but find that their credit card balances are consistently heading in the wrong direction.

If you can't make all of your payments each month without borrowing on your credit cards, you should be thinking seriously about how to get out of debt.

Your short-run goal is to get your debts sized to fit your income so that you can make all of your payments each month without borrowing more money. Most people find that they can do this if their total monthly debt obligation (including rent) is less than 40% of their gross income.

Follow these simple steps to get yourself back in control:

1. Make a list of your debts.

2. Make a list of your assets. Be thorough.

3. Put an asterisk next to each of the assets with a debt attached (your house likely has a mortgage, your car likely has a loan attached).

4. If you have investments on your list of assets, consider using them to pay down the highest interest rate loans—probably credit cards. Talk to a tax advisor before using money from your IRA or 401k.

5. Sell your grown up toys. Think about boats, RVs, ATVs, motorcycles and other things you put gas in but that you don't drive to work each day. Often worth thousands of dollars, these sorts of assets can be sold to pay down consumer debts. These toys also cost money to insure and use, putting pressure on your budget. Sell the toys and rent some when you can afford it.

6. Have a yard sale or garage sale to get rid of all of the stuff you don't use, that takes up space and that has value. Use the proceeds to reduce your debt.

7. If you have a car with a car loan, sell it (if you can) to pay off the loan and buy a clunker for cash. Better still, sell the car, pay off the loan and take public transportation. The monthly saving will be huge.

8. Finally, if you own a home with a mortgage smaller than the value of the home, you can consider selling your home and buying a smaller one with a smaller mortgage. Chances are, this will come with the benefit of new neighbors who drive less expensive cars and take less exotic vacations, relieving you of some of the pressure you may have been feeling to keep up with the Joneses.

If these steps don't get your debt under control, you may be a candidate for help from a consumer credit counseling service or even bankruptcy. To avoid those steps, you may wish to approach your lenders on your own to ask for relief. Some may be willing to work with you to help you avoid bankruptcy where they might get even less.

Once you have your debt down to a management size, set your goal to get completely out of debt by committing to paying off your smallest debts first and then your larger ones until they're all gone!

Five Steps for Building a Plan to Get Completely Out of Debt

Before you can build a plan to get completely out of debt, you need to have your debt under control. You must be able to make all of the required payments every month without borrowing on your credit cards in order to create and execute a meaningful plan to get completely out of debt.

If you aren't ready, consider selling some assets to reduce your debt to the point that you are in control. Then, you can follow these five steps to build a plan to get completely free of debt!

1. Make a list of all of your debts, ranked in order of size—smallest first.

2. Tally up the total of all the required payments. Add about 1% of your monthly income to that number. That extra bit of money we'll call your Power Payment.

3. Each month make all of the required payments on your loans and then add the Power Payment to your smallest loan. With the benefit of your Power Payment, your smallest loan will be eliminated quickly, perhaps in less than one year.

4. With one loan paid off, add the amount that you originally had to pay on that loan to your monthly Power Payment. It's even bigger and more powerful now!

5. Keep paying your bills every month, applying the Power Payment to whichever loan is the smallest until it is paid off completely. Then, add the original payments from the paid off loans to the Power Payment so that it keeps growing bigger and more powerful until all your loans are paid off.

Following this plan will allow most people to be completely debt free, including free from a mortgage, within ten to fifteen years.

Over the years, as you follow this pattern, remembering not to get into any new debt, most people under fifty can expect to see their incomes grow modestly over time, allowing you to improve your lifestyle even while you are focused on eliminating debt. Folks over fifty tend to see slower increases in income but may be experiencing reductions in expenses as children leave the nest.

The sooner you choose to get out of debt, the better. If you think it is miserable having to devote so much of your income to debt payments now, imagine how liberating it will be to have no debt. What would you do if your home and your cars were completely paid off and you owed no one anything?

Chapter 8

Saving for Your Children's College Education

Eight Reasons that A College Education is Necessary

It has never been more expensive to get a college education in America; here's why:

1. The average annual income of an adult high school graduate is $31,000 per year, little more than half that of someone with a four-year college degree earning an average of $57,000 according to the U.S. Statistical Abstract. Those who don't finish high school fare even worse, earning an average of just $20,000 per year. People who earn advanced degrees earn much more than four-year college grads.

2. Unemployment is higher for people with less education. The unemployment rate for college graduates was about 60% lower in 2011 than for those who had not finished high school and almost 50% lower than for high school graduates.

3. The world has a surplus of unskilled labor. There are billions of people in the world who lack a college education and who are willing to work. Many are willing to work hard for shockingly little but do it in order to feed their families. Work that can be performed by unskilled labor abroad puts greater pressure wage rates even in the United States because of globalization.

4. The world has a shortage of engineers. Around the world, schools are ramping up to educate engineers of all types as demand for this type of skill set is especially high.

5. College degrees in any field remain valuable. Regardless of your field, a college degree will set you apart from people who lack a college degree. If you need a job—any job—and you're competing for a job in retail and you have a four-year degree in political science or psychology against someone without a college degree, the odds are in your favor.

6. You just might learn something. There is actually a lot to be said for the intrinsic value of knowledge. Much of what you can learn in college you can learn elsewhere, but ask yourself this: how many people who didn't go to college have learned as much about their field as someone who did? You'll recognize that very few people ever learn as much outside of college as they would in it.

7. College is fun. Really and truly, college is a wonderful experience for most people. Those who don't like it would almost certainly have enjoyed a different college experience had they found it. Seek out thoughtfully the right college experience for you!

8. It's never too late. If you are over 50, it may be too late to get much financial return on a college education, but virtually all of the other benefits may still apply.

Before you break the bank to get a college education, consider a few things. Some colleges and universities are extraordinarily expensive. Some are exceptionally poor and will not change your income potential. Most Americans, however, have access to relatively affordable college tuition at state schools. Community colleges are often downright cheap, offer quality education that prepares students well to finish a four-year degree at a university.

Top Ten Degrees for Financially Successful Careers

A recent study funded by the Bill and Melinda Gates Foundation conducted by professors at Georgetown University measured unemployment rates and salaries by major. Some of the data is surprising.

I've ranked the then best degrees based on average salaries for an experienced college graduate, using their data.

1. Engineering: Experienced engineering graduates earn an average of $81,000 per year and experience just 4.9% unemployment. Those with graduate degrees average $100,000 per year and just 3.4% are unemployed.

2. Computers and Mathematics: Majors from these fields are earning $76,000 per year with the benefit of experience. They experience 5.6% unemployment.

3. Architecture: Experienced graduates earn an average of $64,000 per year but a remarkable 9.2% of experienced graduates are unemployed. Those with graduate degrees don't do much better, earning an average of just $71,000 per year with 7.7% unemployment.

4. Health. Experienced people in health fields with undergraduate degrees earn an average of $63,000 per year; just 2.2% are unemployed—the lowest rate of unemployment of any field in the study.

5. Business. Experienced people with business degrees earn an average of $63,000 (the same as the health graduates) but they are more than twice as likely to be unemployed, with 5.3% of experienced graduates out of work.

6. Science-Life/Physical: Experienced science graduates earn an average of $60,000 with 4.7% of them being unemployed.

7. Social Science. Social science degrees increase earning potential for experienced people up to $60,000 (the same as for science grads) with 5.7% unemployment.

8. Law and Public Policy. Those with undergraduate degrees in law and public policy who have experience are earning an average of $55,000 per year and experience unemployment of just 4.5%.

9. Communications and Journalism. Experienced people with degrees in communications and journalism earn an average of $54,000; they experience 6.0% unemployment.

10. Agriculture and Natural Resources. With an average salary of $50,000 per year and unemployment of just 3.5%, experienced workers within these fields round out our top ten.

As a reference point for the bottom of the scale, experienced education majors have the lowest average salaries at $43,000 per year with 3.9% unemployment.

Salaries for recent graduates tend to be significantly lower and unemployment rates for recent graduates are much higher, with unemployment rates for recent graduates topping 10% for recent architecture and fine arts graduates. Recent graduates in education and health have the lowest unemployment rates. The lowest average salaries for recent graduates are in psychology and social work, recreation and arts.

Experienced workers were defined as those age 30 to 54; recent graduates were those age 22 to 26. Graduate degree holders were limited to those age 30 to 54.

No field rivals engineering for average earnings, according to the study. Computers and mathematics comes closest, but graduate engineers make fully ten percent more than graduate degree holders from computers and mathematics.

The data suggest that there are big economic differences among these various fields. You —and your children—should choose wisely.

Set up your child's college fund when she's a newborn

The only time better than at birth to start a college fund is when you got married and decided to have kids. If that didn't happen, now that she's born, let's get serious and figure out how to get the college fund started.

Even if you don't set money aside for college, your child can still go to school, but her options will be much more limited (unless she has exceptional grades). You can give her many more options with small contributions to a college fund over time. If you want to be sure she can go to any school in the world where she's admitted, prepare yourself.

For every $10,000 you would like to have available to help your baby pay for college at her 18th birthday, you'll need to save about $29 per month (assumes a 5% return, which you can earn in many mutual funds that invest in medium term corporate bonds). Keep in mind, that inflation in college tuition has been running well ahead of the broader inflation rate for the last two generations. It would be foolish to plan on that changing.

It is difficult to know how much money you'd need, but near the upper limit, you can reasonably expect to pay about $300,000 for an Ivy League education in 18 years, meaning that you'd want to be saving about 30 x $29 or about $870 every month.

You may, instead, want to plan on your baby living at home and attending a local college. By eliminating room and board as an expense, you reduce the need dramatically. Depending on the school and your state, you may be able to cover four years of tuition, books and fees for about $50,000. That would require you to save only 5 x $29 or about $145 every month.

If you can't save that much, save what you can. Even savings of $58 per month for the next 18 years would give you about $20,000. If you combine that with living at home, needs-based scholarships, summer and part-time jobs, you can see that you may be able to fund your baby's college education without student loans.

Don't fall into the trap of assuming that you can or will borrow whatever is needed to fund your baby's education when the day comes. While this may be true that you can, the impact may be that you saddle your baby with debt that robs her of the benefits of a college education for most of her career or you end up with a debt that could rob you of a healthy retirement.

If you need to borrow a bit to close the gap between your savings, other resources (grants and scholarships, summer and part-time employment) and the cost of the education, that's okay. Borrowing 10 to 20 percent of the cost should neither ruin your retirement or your baby's life. Think of student loans as the way to close the gap if there is no other alternative. Don't let student loans become the way you pay for college.

By starting a savings plan when your baby is born, you can give your baby better options for her college education when she is 18.

What is a 529 Plan and How Does It Work?

A "529 Plan" is a savings plan established by a state or a college to help families save for college expenses. The plan has tax benefits that allow the savings you contribute for your child's college education to grow faster and go farther. The name, 529, is a reference to the section of the Internal Revenue Code that established them in 1996.

Tax Benefits: A 529 Plan offers two primary tax benefits. First, the income from investments in the plan is not subject to tax while they are in the plan. Furthermore, if the money in the account is used for qualified educational expenses, the income can be withdrawn without paying any income tax. Given that the cost of a college education for children born in 2012 could reach $300,000, the interest earned on an account of that size would be significant—meaning that the tax benefits could be large.

Savings v. Prepaid Tuition: There are two kinds of 529 Plans. Some are savings plans that allow you to invest and earn a return with the accumulated savings available for use for college expenses at any school in the country. Prepaid Tuition plans are offered by states and by colleges, allowing you to contribute money that effectively grows at the rate of inflation for college education at that school or in that state. Given that the cost of a college degree has been growing faster than general inflation for the last generation, it seems possible that the Prepaid Tuition plans offer higher returns. The drawback is that the accounts can only be used toward tuition in the state that offered the plan—or at the school that offered the plan. If you're certain you know your student will attend school in your state or even at a particular school, you could consider the prepaid tuition plans there. Otherwise, go with the savings type plan. You can invest in any state's plan—you don't have to choose your own state's plan. Be sure to shop around.

Qualified Educational Expenses: You can spend the money in a plan for tuition, housing (if the student is attending school at least half time), fees imposed by the school, books up to the cost budgeted by the school and for computer equipment used in education. No, that doesn't include an Xbox.

Beneficiary: When you open the account for your child, you'll have to designate your child as a beneficiary. There is no penalty for later deciding to give the money to another one of your children; you simply change the beneficiary. If the original beneficiary doesn't use all the money and you have no other children, you can change the beneficiary to be a niece or nephew or to the parents of your nieces and nephews (your siblings).

Non-education Distributions: If you distribute the excess funds other than for college expenses, all of the income on the distributed value will be subject to tax and a 10% penalty.

As you can see, there are some important benefits with 529 Plans but there are some hazards. The risks are small if you have a number of children planning to attend college. Be sure to compare plans in a variety of states before you start investing.

How Will I Ever Pay For My Children's College Education?

With a four-year college education at schools like Princeton expected to reach $300,000 for children born today, saving up to send multiple children to college is frightening. It is possible; here's how:

1. *Decide what your responsibility is*. Before you can start a savings program, you need to decide what your responsibility will be. Will you pay for your children to attend any school they want, at any cost, regardless of their grades? Will college be entirely their responsibility (if so, you can quit reading now)? If you're like most parents, you'll find somewhere on that scale that represents your approach to paying for college. My parents told me they'd pay tuition at the local college and let me live at home. Going anywhere else, they'd kick in that much tuition. I went to the state school and lived at home—then got an Ivy League MBA.

2. *Start saving*. Presuming that you plan to help your children pay for college (you are still reading), the key step is to begin saving as soon as possible. The earlier you save and the more you save early the more the money will do the work.

3. *Open a 529 Plan*. A 529 Plan is a tax deferred savings plan for education expenses. If you don't have one and you have kids, open one today. If you plan to have kids but don't have them yet, consider it. It's almost never too early to start saving.

4. *Get your students involved*. From the earliest days, help your children to understand your commitment to their education and what you expect from them. Encourage them to save their own money for college, firming their commitment to go at the same time you share the burden.

5. *Help your students apply for scholarships*. There are all sorts of scholarships, many of which are neither need dependent nor merit-based. Using the internet and coaching from financial aid offices, apply for at least a dozen scholarships. Even if you get only a few, the effort will be well worth it. For instance, my wife and I are funding a scholarship for students who attended the inner-city grade school where my wife taught school for ten years.

6. *Take advantage of* tax credits. The U.S. Government provides tax credits for people who are paying for college. If you're paying, you get the credits. Be sure you understand how to claim the American Opportunity Credit and the Hope Credit, which can help to cover thousands of dollars of educational expenses each year.

7. *Use student loans sparingly*. Student loans cannot be discharged in bankruptcy. They will hang over you or your student for years to come. It is hard for an 18-year-old to see how painful that will be. Help your students avoid student debt when possible.

8. *Be wise*. Princeton and Harvard—and perhaps other schools—charge students from low-income households absolutely nothing to attend. If the student is admitted on a needs-blind basis, there is no cost to attend. Even the living expenses are covered. Approximately 20% of the students at those schools reportedly attend on that basis. For

families with incomes above the minimum threshold, the family's financial responsibility is stepped so as to be affordable.

By following these basic steps, you can build and execute a plan that will assure that your children get a college education without breaking you beforehand or burdening them with a life of student loan payments.

Eight tips for getting eight kids through college

If you have eight children and want to get them through college, you've got your work cut out for you. Here are eight tips to help you get your big brood through college.

1. *Start Early:* Your entire effort at getting your kids through college needs to start early. You can't wait. If you are even thinking about having lots of kids, you should be thinking about college early and often.

2. *Save What You Can*: Save all you can for your children's education. Saving will be difficult and unless you're the CEO of a Fortune 500 company (if you are, I'm flattered that you're reading my article—congratulations) you probably won't be able to save enough for all eight kids to go to Princeton. In fact, you won't likely save enough to pay for their tuition to a local state university. Just because you can't pay for their entire education doesn't mean that you shouldn't be saving. Save whatever you can. Target at least $29 per month per child from the time they're born; that will give you $10,000 per kid when they graduate from high school. Not enough, but it's $10,000 more than nothing!

3. *529 Plans*: Be sure to put your savings into a 529 Plan (this is a state or school sponsored savings plan that allows your savings to grow tax free and is not taxed when withdrawn if the money is used for qualified education expenses. You are required to designate a beneficiary, but you can change the beneficiary easily and without penalty.

4. *Share the Load*: You will need to share the load for educating your children with them. Encourage your kids to work and save their money for college, too. They may be able to save as much as you do, doubling the cash available for college at the time of their graduation. They can also work part time during college and summers, allowing them to pay for more of their school.

5. *Scholarships*: Encourage your children to get good grades. If even a few of your children get large academic scholarships, that may help fund the other kids, too. Many scholarships are need based; with eight kids, you may qualify even if you have a great job. Some scholarships are neither needs-based nor academically focused. Encourage your students to apply for at least a dozen different scholarships. Every little bit helps.

6. Tax Credits: The American Opportunity Credit and the Lifetime Learning Credit provide meaningful help to whomever is paying for the education expenses. The credits are at least partially refundable, meaning that you can get at least part of the credit even if you paid no income tax. Beyond the tax credits, the qualified expenses are also deductible.

7. *Live at Home*: I can only imagine that you're eager to get the kids out of the nest, but if you keep them at home through college, that will effectively eliminate a huge cost. Just be sure to make them do their chores.

8. *Don't Give Up*: By doing all of the above, you can make a college education attainable for all eight of your children. There may be nothing more important to their future quality of life than getting a good college education, so keep encouraging them and keep saving.

If a family with eight children can afford college for all eight of their children, you are almost certainly even more likely to pull it off. These tips apply largely to families with any number of kids, from 1 to 15.

Funding College without Savings or Debt

If your financial situation has been such that you haven't been able to save for your child's college education and you want to avoid any student loans, college is still an option. The following is a plan to help you help your student finish college on the cheap.

1. Living at home: For most students who attend in-state schools, the cost of room and board away from home with Mom and Dad exceeds the cost of tuition. If you agree to host your student at home—as long as she stays in school with acceptable grades—you'll be making a huge contribution to her education without increasing your costs at all.

2. Tax credits: The American Opportunity tax credit provides a tax credit to couples filing joint tax returns with incomes under $160,000 per year. The tax credit provides up to $2,500 in refunded taxes for up to four years per student. The Lifetime Learning tax credit provides another $2,000 without limits on duration. These tax credits may cover substantially all of the tuition cost for full time enrollment in a local community college. If not all of the cost, it will certainly close the funding gap substantially.

3. Scholarships: Many scholarships are needs based, meaning that your student can get some scholarships without being academically gifted. Instead, if your student is qualified by a host of seemingly random criteria (family heritage, parents' employment, where your student attended high school, etc.) your student may qualify for a scholarship. Plan to apply for 12 to 15 scholarships to help close the funding gap; expect to get two or three small scholarships.

4. Six-Year Plan: If completing school in four years is impossible even with the steps taken above, consider a six-year plan. By studying half-time three semesters per year (including summer), your student can complete about two-thirds of an academic year each year, allowing her to finish in six years. This will substantially reduce the cost and allow her to work at least half time, allowing her to pay for school costs not covered by the above plan.

5. Employer Help: Some employers will fund 100% of college tuition for their full time employees. Countless people have completed their undergraduate education while working full time. (I did.) A common program is a tuition reimbursement program that essentially requires the student to pay for the first semester out of pocket and thereafter reimburses students provided their grades are above a threshold. A student loan could be used to fund the first semester and could be paid off with the final reimbursement.

As you can see, it is not only possible, it is practical for your children to complete college, even if you don't have a college savings plan. It requires extra time, patience and extra hard work, but lots of people do it. The value of a college education is too great to pass it up simply because the challenge of paying for that education looks daunting.

Chapter 9

Planning for Your Ideal Retirement

What will $1 million buy in 2042?

If you're young, as you begin planning for retirement, you may quickly realize that you will accumulate over $1 million by the time you retire. That may seem like a great deal of money. You'll be a millionaire after all. Before you get too excited about a lavish retirement, let's look at what $1 million will likely buy in 2042.

Let's assume inflation runs at 3 percent per year on average.

Car: In 2012, a typical new car costs about $30,000. In 2042, that will likely have risen to about $72,000. Already, you're probably starting to feel less rich.

Housing: A fairly typical American home today would cost about $200,000 in many markets. In 2042 you can expect that home to cost just over $485,000, eating up about half of your $1 million. That suggests that you'll want to own your home free and clear of a mortgage in addition to having a substantial retirement savings account—otherwise your retirement savings won't be very substantial. A rental payment of $1,500 today will likely be about $3,600 in 2042.

Income: What you most want your retirement savings to provide is income. It is virtually impossible to know exactly how much income $1 million will provide—it will change every year and unless you invest very conservatively there will be some years the money actually declines in value—before you spend any. That said, there are three ways to think about the income you'll earn from $1 million.

1. Conservative Growth: If you'd like to know that you could live indefinitely on your investments with the income growing with inflation, you'd want to spend less than your savings generates each year. If you assume that you will on average earn 7 percent each year, and you'll want to keep 3 percent of the reinvested so your income grows each year with inflation, then you only get to spend 4 percent of the balance, meaning your $1 million will provide just $40,000 of income each year. The good news is, under this set of assumptions, it will grow until you die and you'll leave a nice lump of money to your children. In 2042, however, $40,000 will feel like earning less than $17,000 per year. (Perhaps added to your social security benefits it will be enough—but not likely).

2. All the income: As an alternative, you might want to spend the entire $70,000 your income generates each year. Combined with your social security maybe that would provide a comfortable income. Over time, however, inflation will erode the value of the $70,000 (which will fluctuate each year, but will not grow).

3. Eating the Golden Goose: As a final alternative, you can plan to spend the earnings and some of the principal each year. If you know how long you'll live, this is a great plan. (The problem is that no one knows how long she'll live.) If you assume you'll live for 20 years after you retire in 2042, your $1 million will provide you with over $94,000 per year. The value of that income will erode slowly over the twenty years—enough for you to notice. At the end of the twenty years, you'll be flat broke if you're still alive.

It is discouraging—maybe even depressing—to think about how much money life will cost in retirement. Social Security is almost certain to be funded at a lower level (the likely mechanisms for reducing benefits will be pushing retirement to start later in life

and indexing benefits to inflation using a formula that will result in lower benefits over time than the formula in use today.)

Choose now not to be discouraged by these facts; choose to empower yourself by saving more money each month so that your retirement can be what you dream and not what you fear. The choice is yours.

How Do I Make Sense of Retirement Savings Plans?

If you don't have the retirement savings you want, one of the barriers you face is likely to be understanding all of the crazy, nonsense terms you think you need to understand just to open an account.

There are really just four key words to understand in the retirement planning arena. That's it. Four:

IRA: Individual Retirement Arrangements more commonly called IRA's are accounts defined by the Internal Revenue Service (IRS) as having special status that excludes the income on the account from your taxable income each year (in some cases, only until you retire). You can open an IRA with virtually any bank, credit union, or brokerage.

401k: A 401k is much like an IRA, except that your employer opens the account and holds the money for you. You have the option of contributing some of your income into the 401k (you can't be forced to participate) and the income on the investments in the 401k are excluded from your income at least until retirement.

Traditional: Both IRAs and 401ks come in two varieties, the first of which is called "Traditional" because it was invented first. A traditional IRA or 401k is one in which your contributions to the account can be deducted from your current year's income on your tax return. In other words, if you contribute $5,000 in 2012, that $5,000 will be deducted from your taxable income, reducing the tax you pay this year. Furthermore, you'll pay no tax on any income earned in the account until you withdraw it for retirement income after age 59 1/2. When you withdraw it during retirement, you'll pay tax on it then.

Roth: Again, both IRAs and 401ks come in the "Roth" variety. Roth variety accounts make the money in the account never, ever subject to tax, provided that it stays in the account until you retire. The catch is that there is no tax deduction in the year of your contribution, making it more difficult to get started.

If you have a 401k at work but don't think you're saving enough, you can simply contribute more to your 401k. Very few people bump up against federal limits on contributions to a 401k. You don't need to have an IRA, too.

If you don't have a 401k, go to virtually any financial institution and open an IRA. If you are likely to have more than $10,000 within a year, go to a stock brokerage like Schwab, Fidelity or TD Ameritrade. If it will take a few years, just get started at your local bank or credit union.

Traditional or Roth? If you pay a very low tax rate now, go with the Roth as your future income will likely be taxed at a higher rate and the deduction isn't worth much this year. If you are taxed at a very high rate (congratulations, you earn a lot), you'll likely want to contribute to Traditional accounts. Still have questions? Your tax accountant and the folks at the bank or brokerage can help. Go see them.

How to choose between a Roth IRA or a Traditional IRA

There is no absolute right or wrong answer to choosing between a Roth IRA and a Traditional IRA, but there are some things you should think about that may alter your decision from one year to the next.

Keep in mind that the same tax rules apply to traditional and Roth 401ks as well as IRAs. By way of reminder, contributions to a traditional plan are deductible in the year of the contribution (reducing your current year tax) and withdrawals during retirement are taxed at your then current tax rate with all other taxes deferred. Contributions to a Roth plan are not tax deductible, but the withdrawals are never taxed if held until retirement.

The guiding principle is that you want to avoid the bigger tax. If you think your tax rate this year is higher than your tax rate in retirement, you'll want to contribute to the traditional plan. On the other hand, if you think you'll have a higher rate in retirement than you will this year, you'll want to contribute to the Roth plan.

As a general rule, you'll want to contribute to the traditional plans in years where you pay an unusually high tax rate (say, you get a big bonus or exercise stock options). You'll want to contribute to the Roth plans in years you have an unusually low tax rate (business losses, gap in employment, etc.).

In many years, however, there will be no special tax situation. By splitting your contributions between the two plans, you'll create some flexibility during retirement. By using some money from the Roth each year in retirement, you may be able to effectively reduce the tax rate on the money you are forced to withdraw from the traditional IRA.

Of course, some people believe that the national debt will force future tax rates to be much higher than current rates. If you expect to have the same taxable income in retirement that you have now, it would be wise to invest in the Roth IRA as a hedge against those potentially higher tax rates.

On the other hand, while tax rates are likely to be somewhat higher in the future, most people won't save enough to have the same income in retirement that they have during their working years. You may be in that situation. Your retirement income could leave you in a lower tax bracket than you're in today—even if tax rates in general are higher.

For instance, many people today are in the 28 percent tax bracket; many are also taxed in the 15 percent tax bracket. Even if those brackets move from 28 and 15 to 31 and 18 percent respectively, if your income drops you to the lower tax bracket in retirement, you'll have been better off contributing to the traditional plan and getting the 28% deductions all those years and then paying the 18% tax.

In conclusion, you need to assess your situation each year to see if there is a fact or circumstance that dictates a switch from your general strategy. If outcomes for you are unclear, the safest bet is to split your contributions between the two plans.

Why Should You Contribute to Your 401k?

Before answering the question, why contribute to your 401k, let's first answer the question, what is a 401k?

A 401k is a retirement savings plan with associated tax benefits offered by your employer. A 401k is an account into which you, principally, and your employer (perhaps) secondarily both contribute.

The money that you contribute is always yours and can never be forfeited due to a change in your employment status. You can, however, lose money on investments, but leaving your job won't cause you to lose your hard earned money.

There are two types of 401k accounts, "traditional" and "Roth." Many, but not all, employers offer both.

1. Traditional: Traditional 401k accounts offer a tax deduction for contributions. Withdrawals will be taxed when withdrawn during retirement.

2. Roth: Roth 401k accounts do not offer a tax deduction for contributions, but the withdrawals during retirement are not taxed at all.

While many people get excited about the idea of the Roth—no income tax during retirement—the value of that difference is limited to the difference in tax rate between now and retirement. If you have low enough income—or enough children—that you pay little or no tax on your income now, then it makes perfect sense for you to contribute to the Roth type account. If you have high income as some do at the pinnacle of their careers, it may make more sense to contribute to a traditional account to shelter income in the high tax year and pay tax in retirement when income may drop you into a lower tax bracket.

The key reason to contribute to your 401k, regardless of which account type you choose, is to save money for your retirement. Investment returns for the current generation are likely to be lower than for the last generation, meaning that we'll need to invest more than our parents to have the same sort of retirement. More than ever, we need the benefit of what the finance world calls "compound returns." That simply means, we need the benefit of the interest on the interest piling up over the years to provide for our retirement.

The secondary reason to contribute to your 401k is that your employer is probably going to contribute to the account. If you contribute $1,000 this year, your employer will likely give you another $500 to $1,000 as well. The money contributed by your employer is typically subject to vesting, meaning that if you leave within a defined period of time, you'll lose the money the company contributed on your behalf and the earnings on it. Still, that means you could get a raise just for making a contribution to your 401k—which you should do anyway. It's basically free money. Never pass up free money!

Retirement Won't Just Happen—You Have to Make it Happen

Early in our adult lives it is difficult to focus on something so far away as retirement. If you're young and healthy, now is the time to start planning and saving for retirement.

Many who launched careers in the middle of the last century went to work for one company, stayed 30 years and retired with a nice pension. The Federal Government kicked in some social security benefits and incomes in retirement looked much like they did during their working years. Retirement lasted only ten or fifteen years on average and there were no problems.

If you're yet to celebrate your 40th birthday, you are likely in a very different situation. You'll likely change employers much more often. There will be no pension and social security benefits will almost certainly represent a lower percentage of your income during retirement than it was for people who retired before 2000.

Add to that the fact that you are likely to live a very long time. If you take care of yourself, you could easily live to be 100 years old. You probably already knew that. Did you think about the fact that if you live to be 100 and you retire at 65, you'll need enough money to live for 35 years without a job? You may not be 35 years old yet! That's a long time to go without a job.

You're going to need a lot of money. Optimally, you'll end up with a nest egg so big the number would scare you. You may really need to have more than a $1 million when you retire (depending on inflation and the lifestyle you want). It is almost impossible to save up the sort of money you'll need in the last ten or even 15 years of your career, no matter how well you're doing then.

That means that you need to get serious right now. If you're not contributing generously to your company's 401k plan, start today. Stop reading, call human resources to set it up, then finish reading this article.

Even if you are contributing to your 401k, you may not be contributing enough. Sit down with a financial professional to figure out how much you'll really need to retire when you'd like. If you can't contribute to a 401k because your employer doesn't offer one, be sure to contribute to an IRA. If you or your spouse doesn't have an earned income, invest for him, too, in an IRA.

Don't cop out and tell me you'll never retire because you love work. I'm not buying it. If you live to be 102, I don't believe you'll work up until the end. You may even genuinely want to work until you're 102, but I don't know many people that age who are still working at all, let alone earning anything like what they did in their prime. Ultimately, retirement will be forced on you even if you don't want to retire.

Be ready or be sorry!

What sort of retirement will social security alone provide?

If you are facing retirement with the prospect of living solely on social security, there is good reason to be nervous.

Social security benefits are a function of what you've paid in to the system. The less you make, the less you've paid in and the less you'll receive in benefits.

You can obtain an estimate of your future benefits from the Social Security Administration website (ssa.gov). Your benefits will be largely a function of your ten best income years, adjusted for inflation.

The income will be about 25 to 50% of your income, depending upon a variety of factors. If that is your sole source of income, your tax burden will be light so you can expect to be able to spend most of that money on your living expenses.

You will have a choice as you approach retirement of retiring early with a reduced benefit or later and receiving a larger benefit. Generally, your benefit increases only until age 70; thereafter, you get no increase associated with not accepting your payments.

Medicare will cover your hospital stays fairly well, but your medication won't be covered unless you enroll in a special drug plan. Even then, your medications won't be covered 100%. Healthcare will likely eat up a fair chunk of your social security income. Even if you are healthy now before retirement, it is unlikely that you will finish retirement in the same condition.

If you have your home paid for and can live rent free, your social security income will go farther. On the other hand, if you have a mortgage or don't own your home, social security may not provide sufficient income for you to rent a place to live, cover all of your medical expenses and leave you with enough money for food and clothing. Owning a car would almost be out of the question.

Many communities provide subsidized housing options for people on fixed incomes. In my community, for instance, public housing for seniors is available at a cost of one third of a retiree's income, making it affordable. A senior receiving just $600 per month, pays rent of just $200. In that situation, Medicaid picks up more of the medical expenses so much of the remaining $400 per month can be used for food and incidentals.

Living on social security alone in most communities in America is possible but not pleasant.

If you own your home without a mortgage, your social security will go farther. A reverse mortgage could pay you additional amounts each month—borrowed against the value of your home—making your life more comfortable.

If you still have any time before you retire, focus first on getting your mortgage paid off so that when you retire you have a free place to live. Any savings you can set aside before you retire will bring real comfort over the years. Be careful with your savings to make them last as long as possible.

If you have more than ten years to retire, make a comprehensive plan to own a home debt free and have at least two year's income saved up. With a home and that much savings, your retirement will be remarkably different than one relying entirely on social security.

How Do I Save Enough For My Dream Retirement?

Knowing how much to save each month for retirement is a difficult question even when a financial planner sits down with you and knows your situation. Not knowing your situation makes the question virtually impossible. In order to answer the question, we'll create a hypothetical example and give you some guidance about how to adjust the answer if the hypothetical example doesn't fit.

If you are a couple, both age 35, planning to retire at age 70 and live until you're both 95, with a household income of $80,000 per year, no retirement savings started and would like to have your home paid off and have $70,000 per year of income (adjusted for inflation) throughout your retirement, effectively allowing you to enjoy a higher standard of living in retirement than you will enjoy before then, here are some keys:

1) *Save more than 10% of your income*. Ignoring the need to save for your children's college, for a car and anything else you want, you'll need to save at least 10% of your income just for retirement. (Be sure to save for the other things, too!)

2) *Shelter your retirement savings from tax*. Your retirement savings needs to be invested in either a 401k or an IRA where the taxes on interest, dividends and gains are deferred until retirement. If you contribute exclusively to "Roth" type accounts, you can afford to save a bit less as you'll be paying no income tax in retirement on your retirement savings.

3) *Buy a home*. If you don't already own a home, buy one within the next five years so that you can have it completely paid off before you retire at age 70. Choose a home where you can stay for your entire lives, if possible.

4) *Invest in stocks and bonds (using mutual funds)*. Given your retirement plans, CDs and savings accounts at banks won't generate enough return on your investments. Recognize, however, that other investments have a greater risk of loss and your retirement plans could be dashed by an unforeseen financial crisis.

The math in these assumptions assumes a 4.5% real rate of return. Sounds low, right? Not really. Ten year Treasury Bonds yield less than 2% as I write this and inflation is running at close to 3%, meaning that investments in Treasury Bonds today have a negative expected real return—you'll buy less with the proceeds from the Treasury Bond in ten years than you could buy with the cash today.

Note that this plan only provides your target income until you are 95. After that point, you'd be forced to sell your home. Once the proceeds from the sale are exhausted, you'd be living on social security (but that would not likely happen until you were almost 100 years old. Of course, if you end your retirement in the customary fashion (by kicking the bucket) before then, you'll leave a little nest egg for your heirs.

If you would like to retire in less than 35 years, you should be saving much more for retirement. If your household income is greater than the cap on Social Security tax (about $110,000) and all from one spouse, you'll need to save more because social security will be kicking in proportionally less for you in retirement. If you have more time to retirement than 35 years, you can save a bit less. If your dream retirement is somewhat more modest than the example, you can also save a bit less. No one, however, should

count on social security to provide an adequate retirement. At a minimum, plan to have your home paid off before retiring.

The Kids Are Gone, But I'm Just Ten Years from Retirement with Almost No Savings. Help!

Good news! With the kids out of the house and on their own, you can focus more time and money on preparing for retirement. You can't make up in ten years for what you should have been doing over the last thirty years, but you can make retirement a reality.

Follow these tips for a fast track retirement:

1. *Scale back the vision*. Without a retirement fund at age 55, you can't have saved enough to securely maintain the lifestyle you've had in retirement. Focus not on your dream retirement, but what is realistic. By preparing for a more modest lifestyle you can significantly reduce the income required to fill the gap between social security and the lifestyle you want.

2. *Save at least 20% of your income*. Even saving 20% of your income, won't be enough to fund the retirement you want in just ten years. There just isn't time for investment returns to compound and do much of the work for you. You'll have to really sacrifice to make retirement possible.

3. *Plan to be in the right home for retirement*. If you had several children, you may find that your home is larger, perhaps much larger, than you need now. Sell your big home and buy a small home suitable for retirement (no stairs). Make sure that you reduce or eliminate your mortgage when you move. If you can't eliminate it, take out a ten year mortgage so that your home is paid off when you retire. If you rent now, seek to purchase a home you can afford with a ten-year mortgage.

4. *No more car loans*. If you have a car loan now, congratulations! It's your last one. Don't ever buy a car again with a loan. Using a loan makes a car more expensive and gives you a false sense of what you can afford. If you end up with $200,000 in your retirement savings, you'd almost certainly never spend $30,000 of it one day on a new car. If you borrow the money, you're doing the same thing (except that you're spending $31,500 instead).

5. *Review your balance sheet*. Your balance sheet or list of assets and liabilities may hold some surprises. Review it carefully. Look for assets that can be converted to cash to reduce any outstanding debts. With advice from your CPA, use those assets now to stop the interest on debt from working against your retirement plans.

By taking these five simple (but potentially painful) steps, you can set yourself up to retire, even if that hasn't been a high priority in your planning so far. If you roll into retirement with a home you own free and clear, and no other debt, your need for income is reduced. Combining what you save over the next ten years to produce income with your social security will make it possible for you to enjoy a safe and secure retirement.

Is there a trail of forgotten 401ks behind you?

Almost all employers offer a 401k or similar plan. Many employers allow you to be eligible for the 401k from the first day and some will enroll you automatically. If you find yourself looking back at five different employers over the years behind you, there may be five different 401k accounts sitting out there. Let's get this organized!

Once you leave an employer, they company can force you out of the 401k by sending you a check, but they can't force you to stay in the plan. Staying is no problem except that you create this trail behind you with one plan after another, each with relatively small balances. A 401k may not be a great place to leave your money, as the fees are typically higher than they would be in an IRA.

Follow this plan to get yourself organized.

1. Make a list of your past employers. The IRS designs 401ks such that you are generally not eligible until you turn 21, so you don't need to start your list with your high school jobs. Anywhere you've worked since your 21st birthday should be on the list.

2. Call human resources. For company on the list, call human resources and ask if they can help you determine if there is a 401k balance being held on your behalf. If the company sent you a check for your balance, perhaps years ago, you may have forgotten. It is worth checking to confirm that there isn't money out there for you.

3. Gather the statements. Your employer should direct you to the company that manages the 401k. The company can change that from time to time so it may not be the same financial firm that handled it when you worked there. Using your social security number and birthdate, you can likely get the firm to provide you with a statement showing how much you have in the account. Gather all of the statements from all of your old 401ks. If you contributed regularly over 15 years, you may find that the sum of all your accounts now equals a couple of years of your current income, depending upon how you invested the money.

4. Open an IRA. If you already have an IRA, you can skip this step. You will want open an account with a stock brokerage. Unless you have lots and lots of money, I recommend a discount brokerage like Charles Schwab, Fidelity Investments or TD Ameritrade. Choosing one may be as easy as determining which one has the closest office. Or you can do it online.

5. Transfer the 401ks. Now that your new IRA is open, you'll want to transfer all of the 401k assets to your IRA. Your broker can handle most of the work if you fill out a form —in person or online—providing them with the account details from the 401k statements you gathered.

6. Invest wisely. Inside the 401k, the company likely restricted your investments rather narrowly, forcing you to invest with no more than moderate risk in mutual funds. In your brokerage account you'll have the full gamut of options, but you'll want to remain fairly conservative, investing in five to seven different no-load, commission free mutual funds with different strategies. Some should be stock funds and others should be bond funds. When you're young, most should be stock funds; as you get older, more investments should go into bonds.

By following this strategy you get the big benefit of having control of your savings and investments. You'd hate to forget about one of those old accounts and miss out on what that value can cover during retirement. If you're wise and thoughtful, you should be able to reduce the fees you're paying, thereby increasing your potential returns. Best of all, you can sleep at night knowing where all of your money is sleeping.

How to Get the Most Out of Your 401K Plan

For most people retiring in the future, a 401k Plan will be the financial key to retirement. Here are some tips to help you ensure that you're getting the most out of your plan.

1. *Never miss the match*. If you are not contributing enough to get the employer match in your 401k today, stop reading now and call your HR department to start contributing at least the minimum required for the full company match today. Never pass up free money!

2. *Contribute more than you'd like.* Retirement for most people will last a long time, perhaps longer than you'd like. To be prepared, you've got to contribute more than you'd like to a 401K. With the help of a financial advisor—your employer should give you access to one—you can determine how much you need to be saving each month.

3. *Money saved today is worth more than money saved tomorrow*. Every day you wait to contribute to your 401k, is a day that you are giving up the investment returns on the savings. Those who plan ahead will spend money they earned on the money they saved; those who fail to plan will have only their own money to spend—and painfully little of that.

4. *Be consistent*. Everyone encounters problems from time to time that put pressure on the budget. Do all you can to treat your retirement savings as too sacred to be used for solving typical problems. Don't cut back on your contribution one month or one quarter with plans to contribute extra later. You won't likely ever make it up. Be disciplined year after year.

5. *Include both stock and bond funds.* As you manage your investments in your 401k, be sure to include funds that invest in stocks and bonds. Investing in five to seven different over the long haul is generally wiser than investing in just one or two. Be thoughtful about asset allocation among stocks, bonds and cash. For retirement, generally you'll want most of your money in stocks and bonds and just a bit in cash. Before your 50th birthday, you may not need to maintain any cash—keep it all in stocks and bonds, which earn more on average.

6. *Educate yourself.* If you're not a financial expert today, it is unlikely that you'll be an expert tomorrow. If you consistently attend employee education meetings about the 401k and read the business pages in the newspaper, you'll become knowledgeable enough to make better decisions. The sooner, the better.

7. *Be patient.* When you start contributing to your 401k at $100 per paycheck, it takes a while for that to become $1,000; longer still to become $10,000 and $100,000. If you consistently contribute 10% of your income for your entire career, you could accumulate the better part of $1 million. Be patient. It takes time.

By following these simple guidelines, you'll be much better prepared for retirement. Retirement takes a lot of money; those who plan well will have what they need.

How can I stretch my retirement dollars?

If your retirement savings isn't as big as you'd hoped, or isn't lasting as long as you had expected, here are some tips to help you stretch your retirement dollars:

1. Live Near Your Kids: If your children are inclined to help and live in a place that wouldn't be terrible, you may find that being near your children and grandchildren can actually save you money—especially when your ability to do things for yourself diminishes. If your kids help you avoid expensive time in assisted living, you may be money ahead.

2. Downsize: If you own your home, you may want to sell it and move to smaller quarters. If you are just starting retirement and likely have decades to go, you can buy a smaller place. If you are mid-retirement, you may simply want to use the proceeds from the sale to rent more modest quarters.

3. Move to a Lower Cost City: Especially if you can't afford to live near your children, you may want to consider moving to a retirement friendly, low cost community like Arlington, Texas; De Moines, Iowa; or Port Charlotte, Florida. (See a longer list at U.S. News & World Report.) These examples all feature senior friendly communities, with high quality health care, low cost activities and a low cost of living. Why not live somewhere fun and inexpensive if you can't be by the grandkids?

4. Care with Cars: Reducing spending on cars should be easy in retirement. Most retirees drive less than they did before they retired. You can easily get by with one car and you won't need to replace it as often because you won't put as many miles on it. Don't let old habits dictate when you buy a car; drive a car as long as it lasts. Take good care of your car so it lasts a long time.

5. Consider a Second Career: If you are still healthy enough to work, consider launching a second career. A study cited by U.S. News suggests that there are increasing career opportunities for seniors and that many are healthy enough to enjoy working. Many of the jobs are in "health care, education, government, and social assistance jobs," according to the research. The nature of these jobs is such that they offer a sense of fulfillment you may not have had when you were working your first career.

Retirement is a challenge for the current generation of retirees, which includes a larger proportion of people who retired principally relying on savings in a 401k or IRA rather than on traditional pension plans. If you are struggling to make ends meet, these ideas may help you to enjoy a happier and more fulfilling retirement.

OK. When do I *really* need to start saving for retirement?

So, you haven't started saving seriously for retirement and you'd like to know when you honestly need to start saving. The best and most honest answer to that question is today. No matter how old you are, the challenge to save enough for a safe, secure and comfortable retirement is so great that you cannot wait.

You'll need *a lot* of money. If you are under 45, you will likely want to accumulate more than $1 million for retirement. Even though you have 20 or more years to do that, it will take saving a lot of money along the way to get there. You can't just save 10% of your income for the last ten years of your career and have enough to retire. The math simply doesn't work. If you are older than 45, you may not need $1 million to have the sort of retirement you want, but you'll need a lot more money than you think.

Use the power of compounding. A dollar contributed to your retirement savings 40 years before you retire will become almost $15 when you retire if you invest at a reasonable 7% rate of return. That's the power of compounding returns. Thirty years out and the contribution will grow to barely more than half that much. Twenty years: $3.87. Ten years: $1.97. As you can see, the money you save early in your career has much more power than the money you save later.

Consider how much you save. If you start saving for retirement consistently 40 years before you retire, you may be able to accumulate enough for retirement by saving as little as 6% of your salary. If you wait until you have just 30 years to retire, you'll want to save 10%. If you wait until you have 20 years, you may not be able to accumulate as much by saving 20% as you could have a decade earlier with 10%. If you wait until ten years before, it will be virtually impossible to save enough to retire in the same way you could have retired otherwise. Saving 40% of your income for the last ten years would accumulate less than contributing 6% for 40 years.

Social Security will dwindle. For folks who retired before the turn of the millennium in America, social security will represent a significant portion of their retirement. The benefit is and will be indexed for inflation and they will not likely notice a significant decline in the purchasing power of their benefits while they are alive. Those who are retiring now will likely notice that their benefits don't buy as much in twenty years as they do now—the government is likely to change the formula used to index benefits to inflation with the result that the benefits will grow more slowly. That will impact even more dramatically people who will be retiring twenty years from now. Their retirement benefit will potentially start later and ultimately pay only 75% as much per year—adjusted for inflation—as current retirees now receive. The conclusion is, of course, that retirement savings are more important to future retirees than they were to current retirees.

No matter how old you are or when you plan to retire, you will be better off if you start saving for retirement today.

Are you on track at age 30? Complete this financial scorecard

For your thirtieth birthday, do yourself a favor and sit down with your spouse for a financial assessment. While it is a good idea to see where you are each year and how you've progressed since the prior year, once a decade or so, it is a good idea to assess yourself not just against your past self, but against a more objective standard.

Take five minutes and see you you're doing in some key financial areas:

A Home: At age 30, it is about time to buy a home. If you've done so already, congratulations. That puts you ahead of the pack. If you haven't purchased a home, do you have money ready for a down payment? You should be ready soon. If you have a significant portion of your down payment saved, you're in good shape and on track financially. If you don't yet own a home and don't have the money for a down payment, you're a bit behind the curve. Getting into a home should be a top priority for you over the next few years.

Credit Card Debt: You are at peak credit card spending age. You haven't had a chance to build a big net worth, you don't likely have lots of savings and so the temptation to acquire the stuff you want using a credit card feels overwhelming. If you are paying off your credit card balances each month, you're ahead of the curve. If you have some small balances, totaling less than 10 percent of your annual household income, you're in typical form for your age—work to get out of your credit card debt as soon as possible. If your credit card debt has gotten away from you, you need to make fixing that situation your top priority. It can overwhelm your financially and leave you perpetually struggling.

Retirement: Optimally, you'd have about half your annual income in retirement savings. If you do, you are on course for a retirement without worries and maybe even an early start to retirement. At your age, if you haven't started to contribute to your retirement plan, you need to start. There are a lot of financial pressures on you now, but the money you contribute now will multiply about tenfold before you retire. Every year you wait to contribute will put greater pressure on your retirement savings later. Wait too long, and your retirement could really be impaired.

College Savings: If you have kids or plan to have kids, you need to be saving for their education. Presuming you have two young children, you should have several thousand dollars in the college fund already. You remember well how expensive college was and the cost is continuing to rise faster than the general inflation rate. If you want your kids to have the same opportunity you had to attend college, you'll want to be saving. Paying for three or four kids to attend Ivy League schools could easily cost $1 million by the time they all finish. Just getting three or four kids through community college and a local four-year school will likely approach $100,000. If you are contributing about $58 per month for 18 years for each child, you should have the minimum required to the local state school college education.

Car: It is easy to focus on the sort of car you drive, the brand, the age, the model. Nothing could matter less to your financial future. The key is to drive a car you can afford to own without a loan. If you have a car payment now, promise yourself and your

spouse that it will be your last. Use your savings judiciously for car purchases, drive your cars for a long time and take good care of them so they last. By driving cheaper cars, driving them for a long time and avoiding interest charges on debt, you'll save thousands and thousands of dollars over your lifetime that can better be invested in a home, college savings and retirement planning.

Don't be discouraged. There is probably no time in life more frustrating financially than your early thirties. Your career likely hasn't fully developed; if you own a home, it likely doesn't have a lot of equity in it, yet; your savings plans are likely weak and, perhaps, nonexistent. Don't be discouraged by your situation; do what you can and if you're patient, time will turn small investments into big savings, small home equity into big home equity and big debts into small ones.

Are you on track at age 40? Complete this financial scorecard

So, you're turning 40 and you want to know if you're on track financially. There is a lot to consider, but let's walk through some key measurements together and see how you're doing.

A Home: At this point in your life, you'd like to own a home for your family. You may not have a great deal of equity in the home yet, but you should be a homeowner. If you are still renting, optimally you'd be saving for a down payment so that you can get into a home. Homes are not the world's best investments. They go up and down in value and generally don't go up too fast. That said, they provide you with a place to live and tend to make families more stable.

Credit Card Debt: Early in your family's history it was likely tough sledding. Credit cards may have played a key role in equipping the home. Those days, if they happened to you, should be past. You should have your credit cards paid off at the end of every month.

Retirement: Retirement is relatively easy and still a long way off. Optimally, at this point in your career you'd have been saving for retirement since your mid-twenties and you'd have something like 2 to 3 times your current income in your retirement accounts. If you have even one year's income in your retirement account you're in pretty good shape. That should grow and ultimately represent about one third of your retirement savings. Your future contributions will fund the rest. If you have less than one year's income in your retirement savings account, you'll need to get serious. You'll need to be saving more than ten percent of your income for the next twenty-five years to create a nest egg that will feed you through your retirement. You may also need to think about pushing retirement to age 70.

College Savings: At your age, you may have some young teenagers starting to think about college. Four years at Princeton will cost about $200,000 today—more when she starts college. If your student will live at home, attend the local community college for two years and then finish at a local four-year college, the total tuition bill could be one-tenth the Princeton cost. There are college options at every spot between those two extremes. For a thirteen-year-old, you'd hope to have about $6,300 for every $10,000 you'll expect to need for her college plans. For a five-year-old, you'd want to have about $1,950 per $10,000 you expect to need. You can roughly guess how much you'd need for kids of other ages by extrapolating from these reference points.

Car: The car you drive is not important in the least. The relative merits of minivans versus sport utility vehicles is someone else's purview. Driving a car that doesn't have a car payment is, however, important. If you're driving a car with a car payment it suggests that you're spending too much money on your cars and therefore, not enough on the items listed above. Take good care of your car so it will last a long time. Focus on saving and avoiding debt.

Having assessed your situation, you likely find that you are doing well in some areas and not well enough in others. That's normal. You may now be able to shift your emphasis

from the areas where you're doing well to those where you're not doing so well. If you didn't show up well on any measure, you may have experienced a setback of some kind. Shake it off. Start fresh and you'll be in fine shape. If you're doing well in every area, *you* should be writing about financial planning for families!

Are you on track at age 55? Complete this financial scorecard

By the time you reach your mid-fifties, you've done a lot in life. You've likely launched a few kids into adulthood and now are beginning to focus on retirement. This quick scorecard can help you quickly determine whether or not you're on track for the retirement you want.

A Home: You should own a home. While it isn't a great investment—and for that reason you shouldn't have too much of your net worth tied up in a home—having a place of your own in retirement will be key. At this point, you would hope to have fewer than ten years left on your mortgage. If you have anything fewer than fifteen and are planning to work until age seventy anyway, you're fine. If you've got a big new home with a big new mortgage, that may be putting your retirement plans at risk.

Credit Card Debt: At your age, credit card debt should be a distant memory. Cards should be paid in full each month, with credit cards serving as a simple transaction tool and not a financing source.

Retirement: In your retirement savings, you would optimally have accumulated almost ten times your current income, setting you up nicely for an early retirement. You're in fine shape, however, if you have four or five times your current income in savings—you still have ten years to go. If you have significantly less than four times your current income in savings, you'll want to increase your efforts at saving for retirement, and perhaps look at delaying retirement until you are closer to 70 rather than retiring at 65, giving you more time to save and for your savings to compound.

College Savings: It's likely that you have put your kids through college by now (angels sing halleluiah in the background). If not, I'm guessing you tested a little low on the retirement measure above; it's hard to pay for college and save for retirement. Your remaining children are likely in college now or will be soon. You also know exactly what it is costing and how that compares to your savings and income. The key question is how will funding what's left to pay for college impact your retirement.

Car: It never has been important what you drive. What continues to be important, however, is that you not drive a car that requires you to borrow the money. At your age, you should have the resources to pay cash for a car and the wisdom not to do that too often.

In your mid-fifties, your primary concern should be saving for retirement—unless you are still paying for your kids to get through college. Managing the conflict between these two important goals is one of the great financial challenges families face. You need to be cautious about allowing your generous sense of obligation to your children destroy your retirement—there isn't much time left for you to accumulate the sorts of resources you'll need in retirement. Unless your retirement is fully funded, be careful not to expand the family entitlement programs for your younger children. If state universities were good enough for the older ones, don't feel compelled by anyone to pay for the younger ones to attend an Ivy League school. Stick with your plan so you can enjoy your grandchildren in retirement.

Are you on track and ready to retire now?

Congratulations on a long and successful career. It sounds like you think you are ready to retire. Let's take a few minutes to look at your financial picture to make sure you're good and ready.

A Home: One key for a happy retirement is to have a mortgage and rent-free place to live. If your home is completely paid off, you're in good shape for retirement. If you own a home with lots of equity, but that is not paid off, talk to a financial advisor about using some of your savings to pay off the mortgage—providing you with a guaranteed return on your investment that beats any other investment with a bona fide guaranteed return. You may also want to consider selling your home and using the proceeds to buy a smaller home or condo where you and your spouse can live. If you have little or no home equity or don't own a home at all, you'll need much more savings and may want to consider buying a place to stretch your retirement.

Credit Card Debt: Going into retirement, you should have no credit card debt. If you have credit card debt that you can't pay off with your savings, you aren't ready for retirement financially.

Retirement: Optimally, you should have ten to fifteen times your earned income in your retirement savings. That, combined with social security, should provide you with a secure retirement. If your savings, after paying off the mortgage, is meaningfully less than tenfold your income you should seek advice from a financial planner regarding your preparation. If you have modest savings and are hoping to live on social security, you should probably consider working longer (unless you're already well past age 70). By delaying retirement, your social security benefit rises, making it easier for you to retire later. Furthermore, you may be able to save a bit toward retirement. Retiring on just social security is more feasible if you own a home that is paid off.

College Savings: Let's presume that you have no more college funding obligations to your children. If you have any money left in your college savings account, perhaps it can be a blessing to your grandchildren.

Car: The car you drive in retirement is unimportant financially. You should not have a car loan, however. In retirement, interest should be exclusively a one-way street: you collect it from others. You don't pay it.

There are lots of models for retirement, from living between the beach and the golf course in Hawaii, to living in subsidized government housing. There are happy retirees—and unhappy curmudgeons—at every economic level. By getting yourself completely out of debt for retirement, you can reduce your worries and settle in easily to a lifestyle you'll be able to maintain as long as your health allows.

$1 million won't make you rich in retirement

I have some good new and some bad news. First the good news: if you are young and committed to saving for retirement, chances are good that you will retire with $1 million or more in retirement savings. Now the bad news: that won't make you rich.

This matters. If you are saving enough to accumulate $1 million in your retirement expecting that it will make you rich, you will be sorely disappointed to learn in thirty years that it may only be enough for you to survive.

Inflation: Much of the returns, the nominal returns you see on your financial statements, will be eroded by inflation. Your real returns—returns adjusted for inflation—will be much smaller. Assuming just 3 percent inflation, the $1 million you have in your account in thirty years will likely spend much more like having $411,000 today. Not bad, right? But it isn't enough to make you rich by American standards.

Social Security: It is fairly clear from recent discussions in Washington that social security will not go away as many have claimed. That said, complex formulas used to measure and adjust social security for inflation are likely to change, resulting in smaller benefits. You will likely have to wait until you are seventy to get the benefits as well. Thirty years from now if social security has been lagging real inflation, it could easily be providing only 75 percent of the economic value to retiring seniors then as now. That means, you'll need to get more of your income from your savings and investments than current retirees to enjoy the same retirement.

Save: As you can see, if you want to have a comfortable—or better—retirement, you need to be consistently contributing to your retirement savings. You can do this through your employer through a 401k or by opening an IRA. The advantage of a 401k is that the contribution to your savings happens before you see the cash and are tempted to spend it. Both IRAs and 401ks offer tax benefits that make them much better vehicles for retirement savings than regular accounts.

Invest: Once you have money in your savings account, you need to invest wisely, taking neither too much nor too little risk. Some are tempted to protect their savings by keeping it in the bank where it is FDIC insured and can never go down in value. That also guarantees that your investments won't grow as fast as inflation. Every dollar invested that way will be worth less—even with interest—than it was when you put it in the bank. Investing wildly in stocks, options and other exotic instruments can be just as destructive. Individual investors often fail to match market returns when managing their own investments. You can hire professionals to manage your money affordably by using mutual funds and ETFs (exchange traded funds).

If you start your retirement savings with the right understanding of the impacts of the decades that will pass between now and your retirement, you are more likely to invest well for the future and have a safe and comfortable retirement.

Chapter 10

Investing Tips to Get the Most Out of Your Money

Investing 101 For The True Novice

If you are like many people in America, the very idea of investing is scary because it all sounds to complicated. Good news: you can do it! Everything you really need to know is in this short article.

Money in savings accounts and certificates of deposit does not generate enough return to provide income in retirement or enough growth over time to help prepare much for retirement. Making other investments could be a wise choice.

Just a few key words will help you understand all you need to know to start making sound investment decisions:

Stocks: Stock in a company is a unit or share of ownership in that company. Hence, investors often say things like, "I own Ford and IBM," by which they simply mean that they own shares of stock in those companies. Stock prices go up and down quite randomly in the short run, but do tend upward over long periods of time. The price you pay for the stock and the price at which you sell the stock are ever so slightly different—you pay a bit more to buy and get a bit less when you sell. Market makers take the difference. You'll also pay a commission to buy and sell stocks. Stock prices can go all the way to zero. There is no limit to how high a stock price can go. Some companies pay dividends to all the shareholders (the people who own the stock) and some don't.

Bonds: Bonds are loans from companies and governments to investors who buy the loans called bonds. Typically, a bond pays interest but no principal over long periods of time—at least five years and often up to 30 or more years. At the end of the bond's life (at maturity), the principal is paid. Usually, bonds are issued with a face value of $1,000 but you are often required to buy more than one at a time. The bond market is much bigger than the stock market but it gets less attention because the prices of bonds—which do move—move less dramatically than stock prices, giving folks less to talk about. The total investment return on bonds tends to be a little lower than the total return on stocks over very long periods of time because bonds tend to be a bit less risky—but no bonds are truly risk free! (You can even lose money on U.S. Treasury Bonds if interest rates rise and you have to sell them.)

Mutual Funds: Mutual Funds are professionally managed pools of money that invest in stocks and/or bonds. The professional managers charge a fee but they do all of the hard work of researching the investments, deciding when to buy and sell shares and even meeting with the management of the companies that they invest in.

Mutual funds are a great tool for novices to use to start investing. Many mutual funds allow you to make small, monthly purchases so you can begin with almost nothing and build significantly over time. Choosing a mutual fund can be daunting, however.

To simplify the process, consider opening an account with a large brokerage firm like Schwab, Fidelity or TD Ameritrade (you may simply want to choose based on which has the nearest office). All offer different mutual funds that you can invest in without fees and they have people who can help you choose. You already know all you need to know to get started so get to it.

How to invest $1 million for retirement

It may sound absurd to you, but by the time you retire you may have to know how to invest $1 million—or some big amount close to that. Talk about a problem you want to have, right?

If you save 10% of your income from every job you ever have and work for forty or more years, you may find that your IRA holds ten to fifteen times your income. Depending on your income, that could easily put your savings at over $1 million. If you are young now let this be motivation. Consistent investing will leave you with over $1 million in your retirement account.

Now, let's talk about what to do with it:

Allocation: The first key principle to observe is the idea of asset allocation. You'll want to allocate your million into three smaller piles. One pile is for stocks. Another pile is for bonds. Another pile is for cash. If you are just starting retirement you may want to allocate about 30 to 40 percent to the stock pile, 40 to 60 percent to bonds and 10 to 20 percent to cash. The more you invest in stocks, the greater risk and greater return you can expect. Cash is risk free, so if you are conservative you'll want to have more cash and less invested in stocks. For retirees, bonds represent the central pillar of your investment program as they generate income you can spend.

Diversification: Do not put your entire stock allocation into one or two stocks. Don't invest it all in twelve different stocks all from the same industry. The market prices assets as part of a portfolio; when you concentrate your investments you take risk that no one is paying you to take. Investing in a wide range of stocks is called diversification. You should do the same with bonds, too.

Funds: The easiest way to get diversification is by buying mutual funds or ETFs (Exchange Traded Funds—always referred to as ETFs). Funds invest in dozens of different stocks or bonds, providing good diversification. Each fund has an objective. It is a good idea to buy funds with a variety of different objectives. With $1 million you may want to invest in as many as ten different funds, you may want to use this list of Morningstar fund categories as a guide for the types of funds you include. This example would provide an allocation of 40% stocks, 50% bonds and 10% cash.

1. Small Growth: Funds that invest in small, growing companies

2. Sector-Real Estate: Funds that invest in real estate related assets, including REITs

3. Mid-Cap Blend: Funds that invest in mid-size companies, including both growth stocks and value stocks

4. Large Value: Funds that invest in large companies viewed to be undervalued

5. Multi-Sector Bond: Funds that invest in government bonds, foreign bonds, and high yield bonds (junk bonds)

6. Long-Term Bond: Funds that invest in long term corporate bonds

7. Intermediate Term Bond: These funds invest in corporate bond maturing in less than ten years.

8. Short Term Bond: These funds invest in short term corporate bonds.

9. Short Government Bond: These funds invest in short term Treasury Bonds.

10. Money Market: these funds have very low yields, but your cash is safe here.

There are many different funds available for each category. Seek out funds with no load, no commission through your broker and low expense ratios. All of these factors can be easily screened with almost any "mutual fund screener" (search that phrase on the internet to find one).

Here's the kicker: The same basic rules for investing apply to any amount of money. You may simply want to reduce the number of funds you invest in if you have significantly less than $100,000. You'll want the diversification and allocation benefits of having at least five funds once you have $10,000 in your retirement account.

How to invest your first $5,000 for retirement

So you've just accumulated $5,000 in your IRA and now you need to invest it. It is impractical, if not impossible to invest it directly into stocks and or bonds so you'll want to invest in a mutual fund or ETF.

You could split your investment and invest in two or three funds, but if we presume that you will continue to make contributions to your retirement account and that those future investments can go into other funds, our goal for today is to help you choose your first mutual fund.

Let's assess your situation.

Are you over or under 50 years old? If you are older, you have somewhat less time to invest, making the risk of a reversal greater for you so you'd want to invest more conservatively. If you are younger—or much younger—you can and should tolerate a bit more risk.

How do you feel about risk? Does the idea that you could check the value of your mutual fund at some point in the future and discover that its value has declined send you into a panic? Does the idea that it might be worth 20 percent more in a year excite you? Would knowing that your retirement savings is at risk prevent you from sleeping at night?

If you conclude that you can tolerate investment risk well, then you should be considering mutual funds that invest in stocks. Their values rise and fall more than funds that invest in bonds, but over the long haul you should expect to earn more in stocks than bonds. If you don't tolerate risk well you may want to make your first investment in a bond fund.

If you feel panicked about risk, please consider that without taking some risk, it is almost impossible to save enough for retirement. Risk free returns don't earn enough interest to keep up with the value eroding impact of inflation. Money in the bank is better than no money in the bank, but it will be worth less tomorrow than it is today. To retire comfortably you need to get comfortable with moderate risk.

Morningstar is a private company that rates and categorizes mutual funds. There are dozens of categories. Your first mutual fund investment in your IRA could come from one of the following three categories:

Large Blend: A large blend fund invests in the stocks of large companies with a balance of growth and value investments (growth stocks are those projected to grow faster than the market and usually do not pay dividends and value stocks are those that are perceived to be trading below some other measure of value).

Moderate Allocation: A moderate allocation fund invests in both stocks and bonds, with more money invested in stocks than bonds. A portion of the money may also be allocated to cash. These funds expect to achieve some appreciation as well as to generate returns through dividends.

Long-Term Government Bond: These funds invest in treasury bonds that mature more than ten years in the future. Such bonds have no credit risk, that is no risk of not being paid on schedule, but as interest rates change, the value of the bonds will fluctuate.

Each of these fund categories would make a good first fund for your retirement savings. They offer high expected returns—compared to what you can earn in a bank account. They are listed in order from most risky to least risky. You can decide which of these three best represents your risk tolerance based on your own situation.

Once you've decided upon a category, you'll want to choose an individual fund based primarily on the expenses. Your broker should provide you with a list of mutual funds you can purchase with no transaction fees. You'll also want to choose a fund that doesn't charge a "load" or upfront fee. You'll also want to avoid marketing and distribution fees called 12b-1 fees. Finally, you'll want to look for funds with low expense ratios. All of these fees must be disclosed so you can figure out which fund is best for you.

Your broker should provide a screener to help you choose a mutual fund that meets your criteria. You may also want to try the Yahoo mutual fund screener.

With that, you're all set to make your first mutual fund investment in your IRA.

How Do I Find A Trustworthy Financial Advisor?

Finding someone you can trust in any field can be a challenge. Think about the person who does your hair; how long have you been going to the same person? What would happen if she suddenly left town? You want to have an even higher level of trust and confidence in a financial advisor.

Here are some tips to help you find someone you trust:

1) *There are lots of different types of financial advisors—you'll need more than one*. You may already have an insurance agent for property and casualty, a separate agent for life insurance, an accountant who prepares your tax return, a stock broker who helps with your investments.

2) *Check for self-interested responses*. Ask all of your financial advisors a basic question, like, how much should I be saving every month for retirement. An advisor you shouldn't trust will suggest investing with her before finding out how much you are contributing to your 401k and whether you could contribute more. An advisor you can trust, will first find out how much you are investing in your 401k each month, how much you have invested and how much your employer will match if you contribute more. Never invest with someone who doesn't encourage you to invest first in your 401k.

3) *Compare answers among team members*. It is reasonable to solicit opinions on any financial subject from all of your advisors. Ask your accountant how much life insurance you need. She has relevant experience and training to give you feedback. Compare that to the answer you might get from your life insurance agent. If they both give you similar answers, that should reassure you. If they are completely different, keep asking until you determine the right answer for you—and which advisors gave the best and worst responses.

4) *Ask friends for referrals.* Ask friends, especially those whose situations are similar to yours, to introduce you to advisors they trust. Ask why they trust their advisors. Ask them to compare them to other advisors they've had that they didn't trust.

5) *Beware of high fees.* Much of the advice you really need should be low cost or available at virtually no charge. If you have an account with a large, discount brokerage like Schwab, Fidelity or TD Ameritrade, you can visit with an advisor in the office at no charge. They won't do a whole financial plan for your, but they will help you allocate your investments in a strategy that fits your risk tolerance and objectives. Your tax accountant can give you a lot of financial advice after completing your tax return and may be willing to offer the advice for free—or cheap—after preparing your return—for a fair fee.

6) *Your employer can help.* If your employer offers a 401k, and most do, you should be able to ask to see or speak with a financial advisor who can help you figure out how much to be saving for retirement and how to allocate your investments within the 401k—all at no charge. Be cautious about offers to manage the rest of your money for a fee. Focus on what she can and should do for you as a 401k participant for free.

As you can see, there is help all around you. Seeking out unbiased help can be a big help. Most financial advisors make money by having more of your money under management.

Generally, you can get all the help you really need from the big, discount brokers without paying high fees. Your CPA can be an excellent judge of proposals that you don't fully understand. Don't ever invest a large amount of money without talking to someone knowledgeable about money who won't make a commission or fee from your doing so. By following these basic steps, you can get affordable, independent and reliable financial advice.

Six Steps to Pick a Good Mutual Fund to Launch Your Savings

Buying your first mutual fund may seem complicated and risky, but this is something you can do all by yourself. This simple guide will walk you through the key steps to finding the right fund for your objectives.

1. Define your investment objective: before you buy a mutual fund, you need to understand why you are making this investment, when you expect to need the money and how risk tolerant you are—remembering that all mutual funds have risk, some much more than others.

2. Use a mutual fund screener: Yahoo! offers a mutual fund screener that you can use for free to find a fund that fits your criteria. Without using a tool of this sort, you simply cannot find and review all of the available funds to consider.

3. Match your objective to the fund: if you have a long investment horizon, that is, you won't need the money back for a long time, you may wish to take more risk by investing in a mutual fund that invests in growth stocks. If your investment horizon is very short, you would probably want to invest in a fund that invests in short term bonds or even a "money market" mutual fund that keeps your money liquid, trying never to put your capital at risk at all (in very rare circumstances, some money market investors have lost small fractions of their investments). In between these extremes, you may wish to find a fund that invests in both stocks (or equities) and debt (bonds).

4. Consider the costs: mutual fund managers collect their money by charging the investors small fees to enter the fund and for managing the money each year. The "load" refers to the fee to enter the investment and the "expense ratio" refers to the annual cost. If you invest in a fund with a 6% load and a 2% expense ratio, your fund will need to generate an 8% annual return (tough to do) just for you to break even in the first year. Look for "no load" funds and funds with low expense ratios. Many of the lowest cost funds are "index" funds that don't try to beat a market index, they just try to match it. Given that very few funds consistently beat the market, focusing on fees is a great way to keep your money growing.

5. Evaluate the risk: consider your personal appetite for risk and screen mutual funds to find those that appeal to your sense of adventure or your fear of falling, as the case may be. Remember that risk is generally compared among funds of the same class. So a risky short term bond fund may be a safer bet than a "low risk" growth equity fund.

6. Invest: generally, you can invest directly with the fund itself by sending them money directly—visit the fund's website for instructions. If you plan to invest all of your money in one mutual fund, that's the best way to do it. If you plan to invest in multiple mutual funds over time, you may want to open a brokerage account with Schwab, Fidelity or TD Ameritrade where you can invest in a variety of mutual funds easily.

How Do I Diversify My Retirement Savings Appropriately?

Diversification is a key concept in successful investing, especially for retirement. This article will help you understand what diversification really means, why diversification is important for you and your family, and how you can easily create the needed diversification in your investment portfolio.

Definition:

Diversification refers to spreading your investments around among a variety of both asset classes (stocks, bonds, real estate) and individual investments within those asset classes.

Why:

Diversification is important because if you are not careful, you can end up with a bunch of different investments that all move in the same direction at the same time with the same result you'd get from just one, more easily managed investment.

How:

1. Invest in funds. By investing in mutual funds or exchange traded funds (ETFs), you get the benefit of diversification at the level of individual investments but you may not be getting diversification at the level of asset classes. A "small cap growth fund," which invests in smaller growth companies with a bias for technology stocks, for instance, may have dozens of stocks in it, but most will be similar companies that face similar risks and will react in much the same way to changes in the economy or to competition.

2. Invest in multiple funds. In order to improve your diversification, invest in multiple funds, not just one. Don't invest in five small cap growth funds, spread your money among several funds with different strategies.

3. Invest in Stock funds and bond funds. To maximize diversification, be sure to invest both stock funds and bond funds. Over the long haul, stock funds typically generate higher returns, but they also swing up and down much more. Bond funds are not only more stable, but will sometimes rise in value when the economy goes into recession—at the same time stocks are falling. When the economy strengthens and stocks rise, the bond funds may show lower returns as their value falls in the face of higher interest rates.

4. Show caution with Individual Stocks. Owning individual stocks directly rather than through mutual funds can be fun—if you like that sort of thing. Generally speaking, individual investors will do less well picking their own stocks than professional fund managers or the stock market in general. If you want to own some stocks directly, limit those investments to a small portion of your total portfolio. Don't trade too often. Buy and hold the investments for a long time. To achieve optimal diversification in your stock portfolio, try to own at least twelve different stocks from different sectors or industries.

5. Skip bonds and buy funds that buy bonds. Owning bonds directly imposes a management burden and logistical problems that most individual investors are better off avoiding. Unlike stocks which can last forever, bonds mature, that is they get paid off. Then you have to reinvest the money, requiring you to do a whole new round of research. As with stocks, you'd want to be diversified, forcing you to be constantly monitoring

your bond portfolio. Buy two or three bond funds with different strategies to achieve your bond diversification and simplify the work you're required to do.

6. Use the allocation of stocks and bonds to adjust the risk and return in your portfolio. The more stocks you own, the riskier your portfolio and the higher your returns are likely to be over the long haul. For all but the very most aggressive investors, having some bond fund investments helps to balance the risk to allow you to achieve more consistent, albeit, more modest returns over time. As you age, you may wish to slowly shift the balance toward bonds. Most advisors now recommend keeping stock investments (usually through mutual funds) as a key part of your retirement savings even after you retire. With people living past 100 years old, you need your money to last for a long time. That means you need good, consistent returns, which you can only get with a combination of stocks and bonds.

Investing for retirement can be challenging, but by spending just a little time learning, you can master important but basic concepts that will help you to protect your portfolio from risk you aren't being paid to take.

How Do I Evaluate The Financial Statements Of A Company Before I Invest?

Learning to evaluate the financial statements before investing is beyond the scope of a short article such as this, but we can give you some basics that will help you begin to interpret financial statements and give meaning to the numbers.

Before we begin, just a word of caution: stock picking is an easy way to lose your nest egg. Rather than investing your hard-earned savings immediately into a bunch of stocks you pick on your own—or worse, one stock—consider allocating just 10% of your total investment portfolio to the stocks you pick yourself. Because you'll want to invest over time in at least a dozen different stocks to create the sort of diversification you get in a mutual fund, you'll want to have quite a nest egg before you start picking your own stocks. Finally, don't get caught trading. Buy stocks and plan to hold them for a long time (measured in years, not hours).

Now, let's begin to look at some basic financial concepts:

1. Income Statement: The income statement or statement of operations is a financial report that describes what the company generated in revenue over a period of time (typically a year or a quarter) and the expenses associated with generating that revenue. The profit is literally reported on the "bottom line."

2. Balance Sheet: The balance sheet is a report that shows what the company has and owes along with the "equity" of the company. The assets are the things the company has as of the balance sheet date and typically include cash, inventory, plant and equipment and other assets. The liabilities or debts owed by the company are also listed and may include accounts payable, accrued expenses, short and long-term debt and other liabilities. The equity is the difference between the assets and liabilities and is generally listed below the liabilities. The equity is the accounting value of the stock held by the stockholders. Note that the accounting value may not have much to do with the market value.

3. Financial Ratios: There are a number of basic financial ratios that are often used to help financial analysts and investors to compare one company to another to determine which to buy and which to sell.

4. Price/Earnings Ratio: Commonly called the P/E ratio, the price refers to the stock price and the earnings is a reference to the profit per share (the latter being simply the total profits of the company divided by the total number of shares outstanding). So a stock with a price of $20 and earnings of $1 per share would be said to have a P/E ratio of 20/1 or simply 20. The average P/E of stocks in the market varies widely depending on the economic cycle. The higher the number, the more expensive the stock is perceived to be. Fans of Apple commonly comment about how cheap the stock is despite a price well above $500 because the P/E ratio is lower than some other companies in related industries.

5. Debt to Equity: The debt to equity ratio is a comparison of the total liabilities of the company to its total equity. Banks, which are highly regulated and explicitly backed by Federal Deposit Insurance have very high ratios of debt to equity. Many high margin,

technology businesses with virtually no debt have very low ratios of debt to equity. By comparing one company's debt to equity ratio to other companies in the same industry, you can get a sense of the health of the company.

6. Profit Margin: The profit margin is equal to the net profit of the company divided by its total sales or revenue, yielding an answer that is usually quoted as a percentage. Margins vary greatly from one industry to another and from one point in an economic cycle to another. Comparing a company's profit margin to its past profit margin and to other companies in the industry will help you understand more about the performance of a company.

There are countless sources of this information on the internet. Most stock brokerages that have online trading platforms also provide this kind of information in easy to use formats. In fact, they provide much, much more. You can read about companies that interest you to your heart's content. One independent site that is popular is MSN Money.

Keep in mind that understanding how to read and understand financial statements is essential, but it is only a part of learning to pick stocks.

Stock Picking Sounds Like Fun; How Do I Start?

Stock picking, the craft of choosing stocks to invest in for retirement, can be fun and anyone can do it. You don't need to have an MBA or be smarter than Wall Street. Before you start picking stocks, however, you need to know one thing for sure: picking stocks individually will almost certainly reduce the returns in your portfolio compared to investing in mutual funds that buy stocks. Why? Mutual fund managers have much better access to information and much greater discipline—as a general rule.

By following these basic investing steps, you can narrow the gap between what professional investors earn for you and what you can earn yourself.

1. *Just a taste*. Allocate only a small portion, say 10%, of your savings and investments for direct stock investments. By leaving the bulk of your financial assets under professional management it won't matter as much what you do with the 10% you manage yourself.

2. *Enjoy it or don't do it*. Because picking stocks yourself is likely to reduce your investment returns, don't do it if you don't enjoy it. If you like the thrill of picking stocks and watching their performance, this can be a fun and educational hobby.

3. *Don't get cocky*. A considerable minority of people who read this article and start picking stocks will see that they do better in the first year with their own stock picks than the market does or by comparison with the mutual funds they pick. I'm sorry, but it isn't because you are smart. It is because the markets are random. You got lucky. Very few of you will do it two years in a row. In all likelihood, no one who reads this article will beat the markets for ten years straight.

4. *Buy what you know*. You will have a much easier time understanding the business model and business prospects (the future is more important than the past when buying stocks) for businesses you know than for unfamiliar businesses.

5. *Know the basics before you buy*. If you have an experience with a business that leads you to think it would make a great investment, be sure to do a little research—a little "due diligence"—before you invest. You should at least know the price to earnings ratio, the debt to equity ratio and the profit margin before you invest. (FamilyShare features an article that explains these ratios.)

6. Diversify. No matter what happens, no matter how much you love a stock, no matter who tells you to buy it, never put more than 10% of your stock picking money into one stock. You should target having at least 12 different stocks in your portfolio, so the average investment should be about 8% (or about $800 out of $10,000). One key to successful diversification is to have twelve stocks that are unrelated. Owning Ford and GM would not be good diversification—choose one.

The more time you spend picking stocks, the better you will get at understanding the jargon and process of investing. If you never forget these six rules, you'll have fun and you won't ruin your retirement plans doing it.

How Do I Pick Investments For My Retirement Savings?

Determining how to pick investments for your retirement can be challenging. If we assume that you have at least twenty years until retirement and that your retirement will last twenty to thirty years (that is, you'll live for twenty to thirty years after retirement) you have 40 to 50 years to recover from the inevitable dips and sags to which most investments are subject. That gives us more flexibility in choosing investments.

For shorter term investing, you should worry most about taking too much risk and ultimately not having the money you need because your investments tanked. With retirement savings—don't go crazy here—but the risk is almost the opposite. You need to take enough risk to get enough return that you'll be able to live off of your savings for a long, long time. Frankly, FDIC insured CDs are not going to cut it.

Before going further, please understand that if you cannot sleep at night knowing that your portfolio could be worth less tomorrow than it was today, keep your CDs. Just be sure to save more—much more than your neighbors who can stomach a little risk.

So here we go. Consider the following guidelines for retirement investing:

1. Diversification is key. It is wisest to use mutual funds as the primary investment vehicle for your retirement savings. Each fund is, within its objective, reasonably diversified, but each fund has a goal. If you were to rely on one fund for all of your retirement savings, you may be concentrating too much risk on one fund manager. You'll probably be better off with five to ten different funds, remembering that by the time you retire you could easily accumulate $100,000 in each one. Managing more than ten may not add any effective diversification—just complication.

2. Choose a growth equity fund. A growth equity fund invests in stocks that are expected to grow faster than the market. They don't always work. These funds tend to appreciate quickly—when the markets do well—and fall quickly when they don't. Over the long haul you'd expect your growth fund to perform best.

3. Chose a value fund. A value fund is one that invests in stocks that based on the fund manager's judgment are undervalued in the market and are expected to rise based less on performance and more on a market correction. These funds don't swing in value as much as growth funds, but they do go up and down.

4. Choose a long term corporate bond fund. If you are aggressive, you may even want to consider a "high yield" bond fund that invests in junk bonds. Junk bonds are debts owed by companies expected to have difficulty paying. The yields on these bonds are significantly higher, but losses are not unusual. "Investment grade" bond funds can still lose value due to both credit risk (risk that the issuer defaults) and interest rate risk (the risk that the bond price drops because interest rates rose) but swings are smaller.

5. Choose an intermediate term government bond fund. The intermediate term government bond fund invests in Federal Treasury and Agency bonds with maturities less than ten years. These funds have virtually no credit risk and relatively modest interest rate risk, so should provide consistent, though modest returns.

6. Choose a fifth fund to match your age or appetite. You can now choose a fifth fund to skew your portfolio in the direction that makes you most comfortable. If you are risk tolerant and sleep well knowing your funds go up and down in value, you may want to invest in a risky fund to help increase the yield in your portfolio. There are a variety of specialty funds that make concentrated investments in industries, regions and countries. These funds often beat the market one year and trail it dramatically the next. On the other hand, if you are not risk tolerant or are closer to retirement, you may want to make your final fund a short term government bond fund that invests in bonds with maturities of less than four years so there is very little interest rate risk and virtually no credit risk.

Following this basic approach to choosing five mutual funds for your portfolio using the Yahoo! Mutual fund screener, you can build a portfolio tuned to your personal appetite for risk and likely earn returns in excess of CDs—remembering that there are no guarantees.

How Much Investment Risk Should I Take?

Knowing how much risk to take when investing is a difficult question. In 2007 and 2008, it became clear that the largest banks in the world had not been able to measure the risks involved with their biggest bets (I'd call them investments, but in hindsight it is clear they were gambling). If banks with hundreds of billions of dollars at stake, can't measure risk accurately, neither can you and I.

The best indicator of risk is the anticipated or recent returns. The higher the anticipated returns, the riskier the investment likely is. In a market where the U.S. Federal Government can borrow money for 30 years for around 3%, you can tell pretty quickly that a bond that pays 13% will be much riskier. If a stock doubled in price over the last year, you can hope that it doubles again this year, but understand that it is a risky investment.

If anyone ever tells you that they have a risk free investment that will pay you more than U.S. Treasuries pay, understand that the investment is not risk free. No one is exempt. (I know I'm certainly not.) It is difficult to measure and understand all of the risks of an investment. In 1999, a group of Nobel Laureates who were operating a large investment fund nearly crashed the global financial system because they made huge investments that didn't work the way they expected them to work.

Assuming you don't have a Nobel prize or a large staff of analysts to help you make your investments, it is easy to conclude that you'll have a difficult time measuring the risk of your investments, too. Here are some guidelines to help you match your risk to your appetite and circumstances:

1. You neither can nor should avoid all investment risk.

2. Take risks that are easier to understand that lots of people are taking rather than unusual risks that are hard to understand. For instance, lots of people invest in mutual funds that invest in growth stocks. Many people can help you understand those risks. Making a bet in future options on commodities would be much harder to understand and there will be fewer people around you to help you understand the risks.

3. Gauge your circumstances well. If you are young, there are lots of years for you to fix your mistakes. You might reasonably choose to take more risk. On the other hand, if you are saving up for your 15-year-old's college, you might reasonably conclude that risk is to be avoided.

4. The more risk you take, the more time you should take to understand the risks. Don't ever kid yourself into believing that you understand all the risks or that you've protected yourself against them.

5. Be careful with leverage. There are a variety of ways to leverage an investment. This is wall street speak for increasing the potential investment returns of a strategy by using someone else's money. For instance, buying a duplex has a certain measure of risk and return potential. You can increase the return—and the risk—by borrowing some money from the bank to buy it. The more money you borrow, the higher the theoretical return could be on your money, but the higher the risk you could lose all of it. There are a

variety of ways to leverage your bets in the financial markets. They always come with the potential to raise your returns and they always increase your risk.

If you don’t remember anything else after reading this article, remember this one thing: investment risk is almost impossible to measure accurately. Proceed with caution!

Investment Tips for Investment Daredevils

If you like to take risks with your investments, here are some tips to help you have fun while you invest without exposing yourself to catastrophic risk.

1. *Be realistic*: For just a moment, picture yourself as an investor doing battle with Wall Street. If you are actively taking investment risks, that's what you're doing. You may be able to beat the market for a year or two, but you are highly unlikely to beat the market over the long haul. It's fun to try and over time you'll likely improve your abilities, so don't give up. Just don't put all of your money at risk.

2. *Diversify*: If you like to take investment risks, you may not be getting paid for all the risk you're taking. The market is broad and assets are priced as part of the overall market. If you are putting all of your eggs in one basket, you're taking risks without added upside potential. Choose to make many more, smaller investments in different areas and that will help to eliminate the risk you're not being paid to take.

3. *Quarantine the risk*: Risk taking is genuinely fun for some investors; investing becomes a hobby. It can certainly pay better than lots of other hobbies, so it's not such a bad idea. You may want to separate your real, long term, cautiously invested portfolio from the money you like to play around with. If you keep 80 to 90% of your money cautiously invested—and keep contributing to your savings in the same proportion, you'll keep your nest egg growing regardless of what happens with the money you're putting at risk.

4. *Have caution with options*: Investing in options over the long haul has a negative expected return. Options are a zero sum game—one player's winnings are another's losses. What's worse is that the game is rigged: someone in the middle takes a commission so you aren't even expected to get your money back. Writing naked calls is an easy way to make money until it bankrupts you. (If you don't know what that is, you're almost certainly not doing it.) Options offer the same thrill as gambling because they have the same expected return. The house always wins.

5. *On Shorting*: Shorting stocks (or other assets), that is the dangerous practice of borrowing someone else's shares to sell them in hopes that the price will decline and you'll be able to buy the stock cheaper to cover the loan. Keep in mind that when you buy a stock the old fashioned way, the upside is infinite. There is no absolute limit to how high the stock price can go. You can only lose 100% of your investment in a stock you own. If you short a stock, you flip that relationship upside down. You can lose an infinite amount of money—more than you potentially have, but your upside is limited to the price at which you shorted the stock.

6. *Private investments*: If you have some money, you may be tempted to make investments in startups and real estate. Many of the professionals in these areas have lost money—lots of money—by making bad investments. If you're just starting out, find a guide who won't be making money off of you to help you make wise investments.

If you're an investing daredevil, these tips will help you avoid a catastrophe even while you continue to invest a portion of your portfolio for fun. Remember, your family is

counting on the investment s you make to provide for retirement and college. You have a responsibility to make sure that money is there.

Investment Tips for Nervous Nellies

If any investment without FDIC deposit insurance sounds too risky to you, you'll never have to worry about losing money in the markets. You'll sleep well at night, safe and warm in your own bed, until you run out of money. Taking moderately more risk can help you avoid that last part!

Consider the following tips to help you increase the risk in your investments to increase the returns:

1. The Difference is Huge: If you invest only in FDIC insured deposits, your current returns would be around 1% in the U.S. Investing in a broad portfolio of stocks and bonds using mutual funds would likely yield around 7%. If you invest $10,000 at 1% for 20 years, you'll have $12,201. If you invest your $10,000 at 7% for 20 years, you'll have $38,697. If you can't take the risk of the stock market, you can likely earn a 5% return in bond funds and end up with $26,533.

2. Think Long Term: Even if you are about to retire or have even just retired, you'll probably want your money to last for decades from now. That is generally considered to be a long enough investment horizon for you to take some risk.

3. Think Like An Investor: If you simply decide to think like an investor, recognizing that investments go up and down in value, you may be able to sleep at night even if some of your money is no longer FDIC insured.

4. Diversify: If you make lots of different investments in a variety of mutual funds you will see that some may go up when others go down, allowing your total portfolio to remain somewhat more constant. You can keep some of your investments in FDIC insured deposits so that you don't lay awake at night worrying, too. Investing in five to seven different mutual funds with different objectives from several different fund families provides effective diversification.

5. Allocate Your Assets Strategically: As you're choosing your mutual fund investments, remember that funds that invest in stocks will fluctuate the most while funds that invest in bonds will earn a bit less over time. The money you keep in cash is the safest but it will earn the least. You can choose how to allocate those investments, but most advisors would recommend keeping at least one third in stocks until it is clear that your money will not last for the next ten years, at which point shifting to all bonds and cash would be safer.

6. Find A Trusted Friend. You may want to find someone you trust to help you and your spouse find the right balance of risk and return.

7. Save More: If you still can't stand the thought of putting money into investments that have any chance of losing money, you need to be saving more. Much more. Talk to your spouse about building a budget that will allow you to save as much as possible for the future.

It is ironic, isn't it. Sometimes taking too little risk is the biggest risk of all. Don't let that overwhelm you. There are prudent ways to take moderate amounts of risk so that you can afford to retire someday and still sleep at night.

How does “Dollar Cost Averaging” work to improve my investment returns?

“Dollar cost averaging” sounds like a mysterious accounting term that requires a degree in business to understand. It isn’t. Not only will this short article explain the concept completely, it will also help you understand that you may already be doing it and that it is likely helping your long-term savings plan.

Dollar Cost Averaging: This phrase refers to the idea of investing the same amount of money each month (or week, or every two weeks) in a mutual fund (stock, bond, ETF, REIT, etc.).

By investing the same amount each month in something with a fluctuating price, like stocks, bonds, REITS, ETFs, etc., you accidentally get a small benefit over the long haul. You are likely to buy more shares than if you bought in one big lump or, even worse, tried to “time the market” by buying when prices are low.

You see, what happens when you buy the same dollar amount each period is that in the periods when the price is high, you acquire fewer shares or units. In the periods when the price is low, you acquire more.

Consider this example:

If you bought $100 worth of shares each month on the first day of the month in a mutual fund initially trading at $20, you’d buy 5 shares on the first day. If the price moves up to $25 for the next month, you’d acquire only 4 shares. If the price drops to $16.67, the next month, you’d acquire 6 shares. Maintaining this discipline over time will generally increase your returns over buying in bigger lumps—if you can avoid transaction costs.

The worst thing to do is to try to beat the system by timing your purchases. Consider the scenario above. Presume that you had the courage to monitor the price for three months before making a purchase of $300 all at $16.67. That sounds brilliant, right? Not so brilliant if the price drops to $10 the next month. Often people make the bigger mistake of letting price momentum carry them away in a rush of panic, investing everything at $25—expecting the price to continue climbing.

The great thing about dollar cost averaging is that you are already doing it if you are contributing to a 401k. Every paycheck, a little bit of money is deducted for a contribution to the 401k. It is invested on a strict schedule. No one tries to time the market and you are getting the full benefit of dollar cost averaging.

If you aren’t already participating in your 401k, start today! If your employer doesn’t offer a 401k, you can easily get the same benefit by scheduling contributions to a mutual fund each month. As your assets grow, you’ll likely hold your mutual fund investments in a brokerage account. Most discount brokers allow you to invest even small amounts in certain mutual funds with no transaction fees. Note that all of the benefits of dollar cost averaging are overwhelmed by brokerage commissions or mutual fund loads. Avoid them.

See how easy that was. Dollar cost averaging is something you’re probably already getting the benefit of and now can fully understand.

What is Asset Allocation and How do I do it?

Asset allocation is the practice of strategically balancing a portfolio among several asset classes. There are three classes of assets that typical families should include in their investments: stocks or equities, bonds and cash. When you finish reading this short article, you'll know all you need to know to properly balance your portfolio.

First, some definitions:

Equities: This is a Wall Street word for stocks, referring to their name in the financial statements.

Bonds: Bonds are loans issued by corporations and governments with set payment schedules, most commonly periodic interest payments with all principal paid at the end of the loan term, or maturity, all at once.

Cash: In investment speak, cash doesn't refer to the stuff under the mattress, but the stuff in the bank and similar places. Very short term government and corporate debt securities (short, as in 30 to 90 days) are typically included in investors' definitions of cash.

You can invest in each of these asset classes using mutual funds or ETFs (Exchange Traded Funds); together, let's call them "funds."

Equities have the highest risk and are generally expected to have the highest return on investment. Bonds have less risk, but still have risk loss of principle and the income on bond funds varies significantly from year to year. Cash features ultra-low risk and correspondingly low returns.

The goal of asset allocation is to match your risk tolerance, return on investment goals, and investment objectives to your portfolio. For short-term objectives, investing only in cash or in cash and bonds would generally make sense. For long-term objectives, like retirement, investing in a combination of all three would be considered wise.

People in their twenties investing for retirement have the flexibility, if they are risk tolerant enough, to be invested 100% in equities. As people age, retirement gets closer and the pain of a major setback in investment returns looms larger so they generally shift the allocation to include more bonds and even a bit of cash. It is prudent for most people to keep a portion of their investments in equities even after retirement because retirement itself can last twenty years or more.

There are no absolute rules in asset allocation, but many investors seem to see about two-thirds of a portfolio as a limit for any single asset class.

Some investors use asset allocation shifts as a way to "time the market," that is they shift their asset allocation not based on changes in their own circumstances (like nearing retirement) but they shift as their opinion of the markets changes. This practice will increase the risk in your portfolio because you are adding a new variable to the equation. You've now added your economic and financial forecasting skills to what is already a complex equation. There is plenty of evidence that the Chairman of the Federal Reserve has difficulty forecasting economic results and he can influence them more than anyone. Chances are, you'll do even worse and risk making your allocation shifts at the wrong times, causing losses you wouldn't otherwise experience.

As you go through life, you can and should slowly adjust your asset allocation. This can often be accomplished simply by investing new dollars in the asset class you'd like to grow. Over time, this should have the effect of reducing the percentage of your portfolio invested in other assets. In this way, you never need to sell assets just to shift your allocation.

Thoughtful adjustments to your asset allocation will better prepare you for retirement.

What is a money market fund and how do I use one?

Learning about money market funds and how to use them in your investing programs can help you make better investment decisions, both protecting your assets and allowing you to earn more in the long run.

A money market mutual fund is a mutual fund that invests in assets that are so stable that the fund maintains a constant price of $1 per share. Money market funds are not FDIC insured (though some banks have offered savings accounts or even checking accounts with the name "money market" but they are FDIC insured and are not mutual funds).

The money market refers to the instruments the fund invests in. The investments include mostly the sorts of instruments that consumers and small investors don't normally buy directly. These include short term treasury obligations (T-bills) and commercial paper (short term corporate obligations). Everything in the portfolio of a money market fund would be expected to mature within a few months. The cash is then reinvested.

Money market funds earn low returns but are generally considered safe despite their lack of a formal guaranty. The industry is carefully regulated and investor losses in this space have been tiny. You can reasonably expect to get your money back with interest.

Most investors look at three primary types of assets for their long term investments. Stocks, bonds and cash. All of these can be accessed using mutual funds. If your family owns mutual funds for its stock and bond investments, it may make sense to put your cash investments in mutual funds as well. You can keep all of your mutual fund holdings in a brokerage account.

Because cash investments of all sorts, including money market funds, don't generate a lot of interest or dividends, and they don't ever go up in value, they don't make great investments. As you approach retirement especially, people often like to move a portion of their investments into cash. This lowers the anticipated return on the portfolio but, more importantly, it reduces the risk of loss.

Keeping your cash in a money market fund between investments is generally a wise idea. Let's say you have $20,000 invested in your IRA at a large discount broker. You might make investments in several different mutual funds and end up with some money left over. Or you might sell one and decide to take some time to figure out which new fund to invest in. These are opportunities to invest in a money market mutual fund so that your cash is safe, but not completely idle.

Some brokerages will put your cash into a money market fund automatically, even if you don't ask for that. Others will give you the option to automatically sweep your cash into a money market fund. Some only make that option available for people with large accounts. Even if you can't sweep all of your balances into a money market account, you can move money into a money market fund just like you move money into a mutual fund that invests in stocks or bonds.

Because of the low returns on money market mutual funds, you want to be sure to avoid any transaction fees at all (unless you have lots and lots of money invested). Today, a $1,000 investment in a money market fund might only earn $10 in a year. If you have to

pay $10 to get in and $10 to get out of a money market fund, you'll lose ten dollars. You'd be better off to have your cash sit idle for a year earning nothing.

Money market mutual funds are a key part of your investment strategy. Though you are unlikely to keep much money in money market funds, you'll almost always want some of your money there.

What Is a REIT and Why Would I Want One?

A REIT is a Real Estate Investment Trust. These entities are essentially real estate holding companies with publicly traded ownership shares; they trade like stocks. Adding REITs to your retirement savings may be a good idea. Here's why and how:

REIT values go up and down much like stocks. Real estate prices tend to move relatively slowly as compared to stocks, but REIT prices move more like stocks than real estate. As a result, the appeal of a REIT is not tied to its price movement.

REITS generally pay generous dividends. This happens in part because the company is not taxed at all. All of the profits are distributed to the owners and the owners pay the taxes. That sounds terrible, doesn't it? You don't want to be paying the company's taxes, do you? If you hold the REIT in an IRA account, the tax liability will be deferred until you take the cash out. If you hold the REIT in a Roth IRA, you'll never pay the tax at all.

The key reason to be putting REITs into your retirement savings is that they take full advantage of the tax benefits of your IRA. In contrast, if you own a growth stock for 30 years that increases in value but pays no dividends, having that asset in your IRA could actually increase the tax you pay. All withdrawals from a traditional IRA will be taxed as ordinary income. Capital gains (the income from selling stocks at a profit) are presently and have generally been (though not always) subject to a lower tax rate.

Dividends on regular stocks are also taxed at the lower capital gains tax rate (this is a relatively new feature in the tax code and one may fairly wonder if it will persist). Inside an IRA, however, the tax rate on dividends is the same. In a traditional IRA, all the taxes are deferred until withdrawn during retirement. In a Roth IRA, neither divided is subject to tax ever.

What this means is that the appreciation and dividends on regular stocks do not benefit as much from the tax benefits of an IRA as do REITs. Of course, investing in assets that earn less won't help your retirement account either, so blindly or randomly choosing a REIT or two wouldn't be wise.

Buying a REIT fund, either a mutual fund or an ETF (exchange traded fund) would be a great way to get REITs into your IRA (or in your 401k if a REIT fund is offered by your employer). You get the benefit of a professional manager who invests not in one or two but in dozens of REITs, protects you from the risk that one particular REIT blows up due to mismanagement and leaves you with the expected returns on real estate investments over the long haul.

As with anything else in investing, a bit of moderation is in order. A retirement portfolio made up entirely of REITs would be over concentrated. If real estate values fell or interest rates were a peculiar arrangement just at the time you wanted to retire, your entire portfolio could be reduced, forcing you to delay retirement or substantially adjust your retirement plans.

Remembering that your retirement account should have a healthy balance of stocks and bonds (with some cash added in as you approach retirement), REITs fit into your savings as part of your stock investments.

What Is An ETF? How Do I Invest In One?

An ETF is an “Exchange Traded Fund.” Essentially it is a mutual fund that trades like a stock, allowing investors to get in or out at any point without worry about any special fees, which many mutual funds charge. Each trade in or out is subject to the same commission your broker would charge for a stock trade. Most ETFs are designed to track an index. Some brokers allow you to trade a few ETFs commission free, provided you hold the ETF's in your account long enough.

The following are tips to help you select ETFs for your portfolio:

Broad Indexes: An ETF is a great way to invest in the “broad market” as it is often called. This refers to ETFs that track indexes that track the performance of a wide range of companies. These include the Dow Jones Industrial Average ETF (DIA), The S&P 500 ETF (SPY) and the “PowerShares QQQ Trust” (QQQ), which tracks the Nasdaq 100 index. While it would be unwise to put all of your investments into one of these indexes, holding a small portion of your retirement savings in each makes great sense.

Bond Funds: There are a wide variety of bond funds traded as ETFs. As with mutual funds, you can choose to invest in ETFs that invest in government bonds and corporate bonds. You can also choose funds of either type with short, intermediate or long term bonds. Corporate bonds are riskier than government bonds. Municipal bonds, like corporate bonds, vary in risk. Long term bonds are riskier than short term bonds. Any bond fund has the potential to lose value, but generally they tend to be more stable in value than stock funds. Bond funds are suitable investments for both retirement savings and college savings accounts. For college funds, emphasize short and intermediate term funds.

Sector Funds: There are number of funds that focus all of their investments on stocks in a particular sector. These funds tend to be much riskier. The broad index funds provide real diversification because they invest in a variety of companies from across the economic landscape. Sector funds concentrate their bets on a single industry. All of the companies in an industry face the same economic challenges—and benefits together. Hence, these funds behave much more like individual stocks with much greater swings in value. As a general rule, these are not suitable investments.

Commodities: You can also find ETFs that will give you the opportunity to invest in commodities, like coffee or gasoline. They use a collection of complex securities and contracts that few if anyone fully understands. If you are reading this article, these funds are almost certainly not a fit investment for you. Leave them to others who think they understand the risks and the markets better. Keep your money invested in conservative funds that will provide consistent returns.

International: You can also find ETFs that provide investments in international markets, some of which focus on mature markets like Europe and others that invest in developing or “emerging” markets in Africa, Latin America and Asia. While some advisors argue that you should have some international exposure in your portfolio, if you intend to live and die in the U.S.—even if you plan to travel abroad—you may be adding more risk to your portfolio with international investments than you’re bargaining for. Proceed with caution.

Overall, ETFs should be thought of as Mutual Funds that can be accessed readily through a brokerage account. Compare the fees at your brokerage with investing in no-load (no fee) mutual funds to help you decide which is right for you.

Municipal Bonds Are Risk Free, Right? Wrong!

Municipal bonds are loans taken by state and local governments and sold to investors. It would be easy to believe that if U.S. Treasury Bonds have virtually no credit risk then certainly municipal bonds have no risk either. It would be a mistake, however. Many state and local governments are struggling mightily now. New York City was almost forced to file bankruptcy in the 1970s.

Notwithstanding the risks of municipal bonds, they offer some significant advantages. Interest on all municipal bonds issued in the U.S. is not subject to tax at the federal level. Municipal bonds issued within the state where you pay taxes are also tax free in your state. Some states also choose not to tax bonds from other states (in hopes of receiving the same treatment from other states).

Here are some specific tips to help you make wise municipal bond investments.

1. Mutual Funds. Invest in municipal bonds through mutual funds and ETFs. This will provide two key benefits. The first is that smart people with access to information you lack will be making the actual investments in the bonds. Second, the fund will buy a variety of bonds providing you with some diversification of risk, reducing the probability of your losing money on the investment.

2. No IRAs. Don't buy municipal bonds (or funds that buy them) in your IRA. Your IRA protects investments from tax. In a traditional IRA, you will ultimately pay tax on all of your investments, even if they would be tax free outside of your IRA. In addition, if you put municipal bonds in your Roth IRA (on which you'll never pay tax) you could instead use the money to buy a corporate bond (fund) that would have the same risk but would offer a higher return. Keep your municipal bond investments out of your IRA.

3. Know Your State. Before investing in municipal bonds, find out if your state taxes municipal bonds from other states and if so at what rate. The rate may be small enough that it doesn't matter. For instance, if you have $5,000 invested in municipal bonds yielding 4%, you'll earn $200 per year. If that is taxed at 5%, your tax for the year on the municipal bonds will be just $10. Of course, if you invest 10 time or 100 times as much, you may be much more concerned about that. Find out before you invest.

4. Don't Concentrate Too Much. I'm not suggesting that you not think this through carefully—to the contrary, you should. Don't buy bonds or funds that invest in bonds from only one state. States can have economic difficulties that are hard to predict or see coming in advance. No one saw Katrina coming more than a few days before it devastated Mississippi and Louisiana. Earthquakes, floods, economic challenges all can have concentrated effects. Spread your risk by investing nationally.

5. Moderate Income Means Pass on the Munis: If your income is fairly moderate or put another way, if you are not taxed in the highest bracket, you can probably get a higher after-tax return with corporate bonds with comparable risk than you can get from municipal bonds. Would you rather pay 15% tax of $45 on $300 of dividends on a corporate bond paying 6% or pay no tax on a municipal bond paying $200 of dividends at 4%? You're better off paying $45 in tax and earning $255 rather than just $200.

Municipal bonds can play a key role in your investment strategy if you are fairly affluent, but otherwise they may be a risky way to earn small dividends.

What is “beta” and how will understanding it help my investing?

Beta is a rough measure of risk you can use when you are choosing investments to help you decide how an investment might fit into your portfolio.

The Market: By definition, the price swings in the stock market are equal to 1. The market, as random and volatile as it is, is used as the baseline for measuring beta.

Beta: The beta of any given investment (stock, mutual fund, ETF, REIT) is a number, typically close to 1. A low beta stock is a stock with a beta of less than 1. A high beta stock would be a stock with a beta greater than 1.

High Beta Stocks: Investments with a beta greater than 1 are expected to swing in the same direction as the market, but to a greater degree. When the stock market is moving up, high beta stocks would be expected to rise even faster than the broad market. When the market falls, these stocks are expected to fall even faster.

Low Beta Stocks: Investments with a beta lower than 1 are expected to swing in the same direction as the market but less dramatically.

Portfolio Strategy: As you look at building a strong portfolio, one of the things to consider is the beta of each of your investments. If all of the investments have a high beta, you’ll be whistling a happy tune every time you look at your financial statements—so long as the market is moving up. When it turns down, your tune will likely change. Building a portfolio with some high beta and some low beta stocks would generally be considered wise.

Mutual Funds: Just like stocks, mutual funds have a beta measurement. A mutual fund full of high beta stocks will generally have a lower beta than the individual stocks as their collective movement will be dampened a bit. If you are building your investment portfolio largely with mutual funds, you may wish to get your high-beta investment via a mutual fund rather than with individual stocks.

Caution: Beta is a historical measure and is only meaningful to the extent that the future is like the past. A new CEO, a new product line, a strategic acquisition, or a large recall are just a few examples of events that might cause a company’s stock price movements to change. Beta is only one tool in your toolbox for measuring risk and performance. Be careful not to focus solely on this one measure.

Beta gives investors a shorthand way to measure and discuss the risk and expected returns of a particular investment. By knowing the beta of each investment in your portfolio—being sure to update that from time to time—gives you another way to analyze and build your investment strategy.

What Are the Fees and Expenses of Mutual Funds?

Mutual funds and ETFs can be among the most cost effective ways for individual investors to gain access to Wall Street's best investment opportunities. They can also be a rip off. If you understand what to look for, you can save yourself and your family significant amounts of money.

Commissions: If you invest in mutual funds or ETFs through a brokerage account, you'll typically pay a commission. Discount brokerage commissions are modest, sometimes less than $10. If your investment size is modest, however, those commissions may be eating away a material part of your savings. Many discount brokers offer some mutual funds and ETFs that you can buy with no commission. When you are looking for investments, look first among those that you can buy commission free. You can also buy mutual fund investments direct from the mutual fund without a commission, but if will end up owning several funds—and you should—you'll save yourself a lot of time buy buying your funds through a brokerage account so you can track your portfolio in one place online.

Loads: Loads are like commissions in that they are charged when you purchase the initial investment in the mutual fund. Loads can reach seven percent or more. Many mutual funds are offered without a load; these are called "no load mutual funds." When you invest, you'll want to focus on no load mutual funds. If you assume for a moment that mutual funds average returns of about seven percent per year, you begin to appreciate that paying a seven percent load would be like giving up a year's return. And for what? There is no historical evidence to suggest that load funds perform better than no load funds. Bear in mind that no load funds do charge other fees and expenses.

Redemption Fees: Some funds charge fees when you sell your shares if you sell them too soon. These fees may be charged for mutual fund sales up to five years in the future. Not all mutual funds charge redemption fees. Even many no-load mutual funds do not charge redemption fees.

12b-1 Fees: Marketing and distribution expenses are customarily labeled 12b-1 fees; they are a special class of fees defined by a section of SEC Rules. Many mutual funds do not charge 12b-1 fees.

Management Fees: All mutual funds charge management fees. Fees vary widely from fund to fund. Funds that seek to beat market returns are often called actively managed funds; these funds tend to charge more. Funds that seek to match the return of a market index are called index funds. They can match market returns more easily because they simply buy a basket of stocks (or bonds) that represent the index well. The composition of most indexes changes infrequently so little management of index funds is required so their costs are much lower. Since most funds don't beat the market consistently and those that try have higher fees, buying index funds with low expense ratios seems a good bet.

Other Fees and Expenses: Mutual funds may charge you a variety of fees and expenses, but all must be disclosed before you make your purchase.

It is impossible to predict accurately the returns you'll earn on a mutual fund investment. It is relatively easy to predict the fees. By focusing on reducing fees, you are likely to

increase your returns. If you have a question about a particular fund, you can check the fees and expenses using this tool from the regulator FINRA.

My Parents Left Me $50,000; What Do I Do With It?

Together with the tragedy of parents passing away there sometimes comes a financial windfall. Without careful planning and setting priorities, your parents' legacy could prove to be of little value. For instance, a $50,000 "investment" in a beautiful new car would, in ten years, be nearly worthless. You can instead really invest that money in a way that will change the future for your family. Here are some ideas:

1. Pay off consumer debt: If you have a mountain of consumer debt—and you're not alone if you do—use this windfall to pay it off and then vow never to allow the mountain to return. By paying off the consumer debt, your monthly cash flow should be greatly improved, along with your lifestyle and your ability to save for the future. Take control of your future!

2. Down Payment for a home: If you don't already own a home, $50,000 would be a great down payment. In some markets, it would actually buy a modest home! There may be nothing you could do that would have a better impact on your family than to buy a home with a mortgage you can readily afford and a big down payment.

3. Student loans: Many adults, including some in middle age are still paying off student loans. A windfall may provide the perfect opportunity to graduate from the burden imposed by your degree!

4. College funds: $50,000 invested well today for a newborn would provide for four years of in-state tuition at most state Universities in eighteen years.

5. Saving for retirement: If you have been focusing on getting kids through college and paying down the mortgage and now find yourself in your fifties with little retirement savings, this windfall could provide a big boost to retirement plans. You'll want to invest it wisely and follow this with regular contributions—you can't live on $50,000 for long!

6. Pay off/pay down the mortgage: If you already own a home, paying down the mortgage—even if you can't pay it off entirely—has real merit. In the long term, paying down the mortgage is just like putting money in the bank—except that the return on investment is much higher and it is even safer! Your expanded home equity is more difficult to spend than cash in the bank, but it may be wise to think of that as a good thing!

7. Transportation: Across most of the United States—with Manhattan being a rare exception—it is difficult to imagine life without a car. As noted above, spending all of the $50,000 on a fancy new car would be folly; spending $5,000 or $10,000 on a reliable used car could enable career and other opportunities for your family that you may not have had otherwise.

Most people will find that there are a variety of competing needs and interests associated with a windfall of this sort. It is certainly true that you deserve a nice car and long vacation, but more importantly, you deserve a stable home environment, your kids deserve a real chance at attending college, you deserve a retirement that won't involve working part time into your 90s. Consider all of the things you could do with the money and be wise!

How do I pick investments for my child's college fund?

Investing for a college fund is vitally important. How you invest the money is almost as important as how much you save. A bad investment could leave you without any college savings. Consider the following guidelines to help you invest for your child's college savings—assuming you have at least ten years before your child will finish college.

1. Take only low to moderate risk. Risk taking increases expected returns, but also increases the probability of loss. Even with twenty years until your child finishes college, there may not be enough time to recover from big losses. Keep your college fund investments conservative.

2. Individual stocks, even a collection of individual stocks may be too risky for most people. Virtually any stock can drop in value; the only theoretical limit to how far a stock can eventually drop is zero. The company can't ask you to send more money. Even a mutual fund investing in stocks may be too risky for college savings.

3. Mutual funds investing in bonds, also known as "income funds" are more appropriate for college savings, taking care to avoid—at least for college savings—"high yield," which invest in "junk bonds" whose issuers are in or are at risk of being in default on their debt.

4. Although returns are modest, "Intermediate Government" funds that invest only in treasury and agency bonds with maturities of less than ten years are optimal college fund investments with virtually no credit risk—the U.S. Government will certainly make the payments—and modest interest rate risk (bonds, even government bonds, fall in value as interest rates rise).

5. "Short Government" funds are also appropriate college fund vehicles, especially as college gets nearer.

6. "Money Market Funds" invest in assets that are so free of risk that the funds expect to maintain a price of $1 per share all the time. Returns on such funds are the lowest, but they have the least risk. The rare occasions when money market funds have failed to return all of their capital always make news. Generally, these funds are not government guaranteed and can theoretically lose value—though, as mentioned, it is rare. If you can't stand the thought of seeing a quarterly statement suggesting you've lost money in your college savings account, this is the investment for you.

7. "General Short Term" funds invest in corporate bonds with maturities up to four years and are subject to both credit risk—the risk that the company that borrowed the money can't repay it—and interest rate risk. Both of these risks are reduced somewhat by the short term nature of the borrowings. These investments are prudent college savings vehicles. There are "ultrashort" term bond funds that invest in even shorter term bonds that yield a bit less but may also be a fit.

8. Diversify your investments, but don't over diversify. It is wise to invest in up to three different mutual funds, remembering that by their very nature a mutual fund is a pool of investments and so they have some diversification built in. Investing in two different general short term bond funds won't improve your investment strategy much. Investing some of your money in Intermediate Government funds and additional funds in a general

short term fund makes more sense. Within the last few years of investing, you may want to invest only in shorter term funds to reduce interest rate risk.

Bond funds or income funds can be great investments for college savings, avoiding the pitfalls of the stock market and earning potentially much more than is available in an FDIC-insured savings account. The Yahoo! Mutual Fund Screener can help you choose a fund that is right for you.

What Exactly Is "Net Worth" And Why Should I Care?

Your family's worth can't be measured in dollars—nor should you try. Measuring your family's net worth is a key way of measuring financial health and progress.

Net Worth: Net worth refers to the difference between the sum of all of your assets minus the sum of all of your debts and liabilities.

Assets: Assets are all of the things you own. Your house and car are assets. Your retirement savings and your college fund for the kids are also assets. If your life insurance has an investment feature the cash value of that investment is an asset—the amount of the benefit you receive when you'll die is not yet an asset. The cash in your bank account, the value in your flexible spending account at work or your Health Savings Account are all assets. When you stop to think about it, you have lots of assets.

Liabilities: Your liabilities include your mortgage, your car loan and credit card balances —even if you pay them off every month. If you have a debt to anyone for any reason, a balance owed to the dentist, a bill outstanding to a contractor who did work on the house, anything like that, it is a liability.

Calculating Net Worth: You can calculate your net worth by deducting the total of your liabilities from the total of your assets. Assets – Liabilities = Net Worth.

Reference Points: American families headed by someone under 35 years old have a median net worth of just $11,800, meaning that half of families headed by someone age 35 have a net worth of less than $11,800. Those 55 to 64 years old have a median net worth of almost $254,000. Again, by definition, half of families have less than that.

How Much Is Enough? There are a variety of ways to think about net worth. Considered primarily as a measure of retirement readiness, you may wish to target a net worth on the order of 10 to 15 times your pre-retirement household income. So, if you have an annual income of $75,000, a net worth at retirement of $750,000 may be enough to carry you through retirement with a lifestyle similar to your pre-retirement lifestyle. A net worth of $1.1 million would make that level of comfort almost certain. Of course, this is an over simplification, a simple rule of thumb.

Home Equity: Much of your net worth will be in the equity in your home, which is—thankfully—difficult to spend. At some point near retirement you may choose to sell the home where you raised your children and move to a smaller condominium, freeing up some of that equity to be invested in assets that will generate cash for your retirement.

Pension Plan: If you have a traditional, defined benefit plan where your employer has committed to provide you with an income after your retire based on a formula, there is no one who can or will tell you what that is worth exactly for calculating your net worth. It is a big asset and one that is important to your retirement. You could ask a financial advisor to help you make a careful estimate of its value. As a simple guesstimate, you could multiply the annual income you'll receive by ten (for a complex set of reasons beyond the scope of this article) and that would give you a rough estimate. If your pension will pay you $25,000 per year, multiplying by ten yields about $250,000.

Once you make a calculation of your net worth, you should find it relatively easy to update that estimate. Doing so at least once each year will allow you to track your financial progress over time.

What Is Morningstar And Why Do I Care?

You can't read much about mutual funds or ETFs without tripping across references to Morningstar. Morningstar is a company that evaluates mutual funds and ETFs. At the highest level, Morningstar gives a star rating from 1 to 5 to every mutual fund they review (they don't review all mutual funds).

The following are some key facts about Morningstar's ratings and analysis of funds:

Star Ratings: The star rating, introduced in 1985, provides a simple and easy way for investors to understand the historical performance of the fund, considering the risk of the fund and its fees and expenses.

Morningstar Categories: Morningstar categories are used almost exclusively in the industry to categorize funds. There are dozens of categories of funds. The fund category is determined based on the investments in the fund, regardless of the fund manager's description of the fund and its objectives. This is a key feature to know before investing in a fund.

Category Ratings: Category ratings were introduced by Morningstar in 1996; these ratings are specifically intended to help investors compare two or more similar funds.

The following are some of the key categories you should understand. Depending upon your appetite for risk and your investment goals (retirement, college savings, etc.) these are all fund categories you may wish to own:

1. Large Blend: A large blend fund is an equity or stock fund that invests in both growth stocks and value stocks (stocks judged to be undervalued compared to other stocks); it is "large" because the stocks it buys are in large companies (the fund itself could be small).

2. Small Growth: A small growth fund is an equity fund that invests in small growth companies.

3. Medium Value: A medium value fund is (I bet you can guess) an equity fund that invests in mid-sized companies that are deemed to be undervalued by the manager of the fund.

4. Long-Term Government: A long-term government fund is one that invests in government bonds (Federal government, including agencies) with maturities averaging more than ten years.

5. Intermediate-Term Bond: Intermediate-term bond funds invest in corporate bonds with maturities of four to ten years.

6. Short-Term Government: Short-term government funds invest in government bonds with maturities of less than four years.

7. Municipal National Short: This is a fund that invests in state and local government bonds issued by a variety of states that have maturities of less than five years.

While you don't need to limit yourself strictly to these seven Morningstar Categories, you should be careful when selecting funds outside this roster. As you might imagine, a large growth fund or a long-term bond fund would not be wild choices. Funds that concentrate risk in a "sector" or specific industry, or specific regions of the world or specific states

have significantly increased risk compared to funds that invest more broadly. While concentrated risk may increase anticipated return, it also increases the risk of significant damage to your portfolio. Prove your wisdom by investing conservatively and waiting patiently for the rewards.

Help me decide whether or not a duplex is a good investment for me.

You may know people who own a home, condo, duplex or fourplex as an investment and may wonder whether or not that sort of investment would be good for you. Like any other investment, real estate has its risks and offers an expected return.

To help you consider whether or not an investment in real estate is right for you, consider the following:

1. *Handy*: If you are handy around the house, can readily fix a broken toilet, replace a light fixture, lay tile and painting a wall is a form of entertainment for you, owning real estate could make sense. If you hate working around your own house and don't know a socket wrench from a crescent wrench, you'll be glad to know that mutual funds require no maintenance.

2. *Financial Assets Make You Nervous*: If financial assets like mutual funds, bonds and stocks make you a little nervous because you can't touch them, you're a good candidate for owning investment property. If you love checking your brokerage statement and tolerate the downs well enough to enjoy the ups, you may find real estate to be too demanding.

3. *Down Payment*: If you have the resources to make a good size down payment (most banks like to see a 30% down payment for investment properties) you could find that real estate investing works for you. If you can't swing a big down payment, don't swing for the fences; keep your money invested in financial assets until you've got that down payment.

4. *Good Income*: If you have a good income that more than meets the needs of your family and that would allow you to cover big repairs, months when the tenants don't pay rent on time, and other foreseeable gaps in cash flow, you're in a pretty good position to invest in real estate. If you don't presently have that extra cash flow to support a cash flow problem with your real estate, keep your money invested in financial assets that will never ask you to chip in for a new roof.

5. *Presence*: To do the work of managing real estate yourself it helps to be around. If you're willing to hire all of the work done by others, you can do it from the other side of the world (I have) but that will eat into your profits.

6. *People*: If you are prepared to be sweet as pudding to prospective tenants and sour as a lemon to the ones who get behind on their rent, you may be ready for real estate. If you can't stand to be nice or, even worse, you can't stand to be mean, you may not be able to rent or collect the rent on your real estate.

7. *Expectations*: If you understand that real estate appreciates slowly, that mortgage payments have to be paid every month and that returns take a long time, you may have the right mindset for real estate. If you expect real estate to quickly make you into a multimillionaire, you're simply expecting too much.

You've heard it before, right? There are two kinds of people in this world: those who like investing in real estate and those who don't. In my experience, those who like it and do it

best are those who like to do most of the work themselves and who have used little or no debt to finance their real estate. Those who don't like it or don't do well are those who want to hire out all the physical work or who have used too much debt. Now, which one are you?

Don’t scatter investments all around town

It may seem to go without saying that you shouldn’t scatter your family’s investments all around, but it is easier to scatter than not. Scattering is risky. It is so easy to forget about a small investment here or there that one could easily be forgotten. If you move without updating the investment holder, it might be lost to you forever.

One brokerage: As the years go by, you will naturally accumulate more stuff, including more investments. Whenever possible, you want to keep all of your investments in one brokerage account—or several accounts with one brokerage.

A Trail of 401ks: Every company where you’ve worked since you turned 21 could have a 401k account for you. If you don’t want to risk losing track of those old accounts, get the money into your brokerage in an IRA where you can manage the money yourself.

The CD chase: If you have a few thousand dollars invested at one bank and another few thousand dollars invested at another in a constant cycle of chasing attractive CD rates, you could be wasting as much money in gas as you’re earning above the rate your primary bank is offering. For instance, a CD paying 1 percent per year on $2,000 would pay $20. A CD offering 0.9 percent per year on the same balance would pay $18. Driving across town costs easily $10. Your CD chase just cost you $8 and put that little investment at risk of being orphaned and forgotten.

Better investments: There are investments that are better suited to most savings objectives than CDs. When you open a brokerage account, you get a full buffet of investment opportunities. You are not limited to choosing the maturity of CD you’d like.

Complete Statements: If you have all of your investments in one brokerage, you can view their combined performance on one virtual statement on-line. You can check the balance any time day or night in a matter of moments. If your savings are scattered around town at half a dozen banks, you could spend hours confirming that, yes, as scheduled, another $1.5 has been credited to your CD account this month. If you’re not wasting your time checking, you’re risking forgetting about the tiny little investment.

Progress: If you have better investment options, better statements, providing better information, you have empowered yourself and your money to make more money faster with less total effort. You can not only measure your progress more easily you can also make more progress more easily.

Strategy: By having all of your money in one brokerage account you can also get the benefit of having the ability to be more strategic about your investments because you can see them all at once. You can more quickly assess your asset allocation and your diversification, allowing you to prudently accept risk, grow your money quickly and better prepare for retirement.

Make your life easier this year by gathering all of the investments scattered around town and put them to work in one place where you can quickly assess and manage your performance.

Six tips for choosing a brokerage and opening account

At some point in your life, you'll likely need to choose a brokerage to help you manage your money. In a typical brokerage account, you can hold cash, stocks, bonds, mutual funds, ETFs, REITs and other more exotic financial assets. The trigger for opening an account could be when you receive a letter from a former employer explaining that the money in your 401k is yours for the taking.

Here are some tips to help you choose a brokerage and open an account.

1. Full service or discount: If you have more than $500,000, you may want to consider a full service brokerage (Merrill Lynch, Goldman Sachs, Morgan Stanley, etc.) where the fees (relative to your transaction size) won't be a problem and where you can get more professional help to manage your portfolio. Otherwise, you are likely to be more comfortable at a discount brokerage (Charles Schwab, Fidelity Investments, TD Ameritrade, etc.) where the fees are much lower and they generally won't help you choose individual investments. You can get the benefit of professional advice at a discount brokerage by investing only in mutual funds—which are professionally managed.

2. Location: Once you've decided whether to go with the full service broker or the discount broker, you may wish to let convenience be a guiding factor. Although all of the firms operate on the internet and offer toll-free numbers, there are some things that are more comfortably done sitting in the office.

3. Customer Service: Before opening the account, consider tasting the customer service by visiting the office or calling the toll-free number. They will never be more kind and patient than when you are opening a new account. If they aren't kind enough to meet your standards, move along.

4. Pricing: The most common pricing element will be the price of one stock transaction. At the discount brokers that ranges from about $6 to $25. It may not be an important issue for you. If you take my advice and invest exclusively in mutual funds or ETFs that you can buy without paying a commission, the most important thing will the length of the list of funds you can buy without a commission. Look for the longest list of funds you can access without commissions.

5. Opening the Account: You can do it all on-line. If you are under 30, you probably can't imagine doing it any other way. Go right ahead. I like to think I'm a web savvy guy (I publish five blogs, have three twitter accounts, two Facebook pages, etc.) and I would do this in the office. You're likely to have questions and the people at the office will answer you in real time, help you complete the forms and get your account up and running.

6. Funding the Account: You can generally connect your brokerage account to your bank account so that you can simply transfer money back and forth (for free with a two-day settlement). Let me encourage you to make that a one way street—cash goes into the brokerage account to stay until retirement.

Now you're ready. You can choose a brokerage and open an account. Investing gets easier from here—and this wasn't too difficult.

Stock options are alluring; avoid them anyway

Stock options are rather alluring. Some options can be purchased for pennies and have the potential to be worth several dollars. In other words, some stock options appear to have short-term investment potential of twenty fold. You wouldn't have to be successful so often with that strategy to make a fortune, it seems. For basic and fundamental reasons, however, options are to be avoided.

Zero Sum Game: Options are a zero sum game. If you buy an option, someone (probably another investor) has accepted an exactly opposite bet on the markets. Every penny you win, he loses. Every penny you lose, he wins. Not quite, actually. The broker also takes a commission.

Just Like Gambling: Options are just like gambling. It may be fun and exciting, but if you do it long enough the house always wins. Every option bet has two parties who are hoping for exactly opposite outcomes. Both cannot win. The brokerage, like the house, gets a piece of the action on every bet.

Negative Expected Returns: If you consistently and frequently invest in options, your expected return will be exactly equal to a loss in the exact amount of your total commissions. If you make 100 options trades and pay a $10 commission for each one, when all of the options have expired, you'd expect to have lost $1,000. Your gains and losses on the options would all wash each other out and you'd be left with only the commissions as a loss.

Stocks, Bonds and Mutual Funds are Different: When you invest in stocks and bonds and funds like mutual funds and ETFs that invest in stocks and bonds, the investment dynamic is entirely different. While it is true that in the short run, the odds of an individual stock rising or falling are almost exactly equal to 50/50, that changes over time. The longer you hold the stock, the greater the odds of its value rising. So, too, with bonds and funds. Stocks and bonds often pay dividends. Options do not. Stocks, bonds and funds are not a zero sum game. The expected return on these investments is distinctly positive (even though people can and do lose money in the stock market).

Why Do Options Exist? "If options are so stupid, why do they exist?" you ask. There are legitimate uses for options as a hedge as a sort of insurance. If you own a million shares of IBM and the stock is trading for $105. You might be interested in buying an option that would give you the right to sell those shares for $100 per share if the share price dropped below $100. Using options to hedge existing investments represents a classic use of options. Often, however, options are held as speculative investments.

As you plan your family's financial future, it is likely that stock options will have no role for you. (Employee stock options granted by your employer are another thing entirely. Accept those gladly.) There are much better investments available.

Is buying real estate with nothing down as easy and smart as it sounds?

There are lots of people in the world who are in the business of teaching people how to get rich by buying real estate without a down payment. Note that I say they are in the business of teaching people to buy real estate and not that they are in the business of buying real estate.

The following explanation may help you to understand the risks involved with buying real estate with nothing down.

Cash flow: The teachers in this industry are fond of suggesting that a property bought without a down payment will generate a positive cash flow. It has probably even happened. It isn't the norm. Without a down payment, financing costs are likely to be significantly higher than normal, meaning that your interest expense will be high and so will your monthly payment. Add to that the operating costs for the property, including maintenance, taxes, insurance, management fees (if any), homeowners association fees, utilities, etc. The rent, if it is paid on time, will rarely cover all of the costs.

Risk: Real estate is often thought to change in value relatively slowly. In fact it does tend to move with the rate of inflation over the long haul, but in the short run it moves up and down, sometimes quickly. If you own the real estate outright, those swings in value are interesting. If you own the real estate with a 25% down payment, those swings can be exciting. If you own the real estate with no down payment, a downward swing can be shocking. Lose a tenant while the market is down and you could quickly lose the property. If you guaranteed the loan, the difference between the value of the property and the original loan amount could be coming out of your other assets.

Realities: When you want to sell the property, you'll face costs approaching 10% of the sales price. That means that the first ten percent of appreciation in the property (which could easily take three years at three percent per year) will leave you with no profit. If you survive the first three years without losing the property, you may then hope to see the appreciation accrue to your benefit. Keep in mind that if you've been losing a few hundred dollars every month in cash flow because the property doesn't cash flow, that holding the property for five years to make a small profit on the sale may not result in actually making a profit. A mere $200 per month for 60 months would be $12,000. On a small duplex or a rental home or condo, you may only make $12,000 on the sale after five years. In other words, it could easily take more than five years before you actually make a profit on your nothing down investment.

Real estate can make a great investment. Most people find that there is less risk and less work in owning financial assets (stocks and bonds typically owned in mutual funds or ETFs) that don't have lawns to mow and toilets to unclog. Once your financial situation allows you to comfortably acquire a rental property with an appropriate down payment, you may find real estate to be a great investment.

Day Trading Sounds Like A Lot More Fun Than My Job, Does It Work?

"Day trading" refers especially to people who trade stocks, options, bonds and other investments multiple times a day. Purists never hold an investment, or a "position," as they call them, overnight. Day trading has a romantic appeal for people who like the idea of picking stocks and getting rich or even just making a living without doing anything else. As a practical matter, it's a pipe dream that doesn't work. Here's why you shouldn't quit your day job if you really care about providing for your family.

Trading Training: There are many people and organizations in the market who teach people how to follow complex mathematical rules using expensive software to make better trades. The organizations make money by training people how to trade—not by trading. If you go to medical school, the teachers are doctors. If you go to many of these organizations who teach you to trade, the teachers do not now and most have not ever made their living from trading their own money. At best, some were traders who worked on Wall Street using other people's money and failed to make the cut. The training is expensive—up to $10,000 and it won't guarantee you success.

Mind Numbing: Day trading is also painfully boring. If you are serious, you'll spend hours every day watching screens for almost imperceptible, fleeting trends you'll try to exploit. Ignoring the fact that guys with millions of dollars under management with much faster computers and internet connections are watching the same trends a fraction of a second before you and trading just ahead of you, the work is mind numbing.

No Advantage: Stock investments on average rise over time. When you shorten the holding period to minutes or seconds, that effect vanishes mathematically. The odds of a stock rising or falling in the next few minutes are virtually equal. Options are worse. Options are a zero sum game and never have a theoretical expectation of winning on average. They are purely a coin toss with commissions guaranteeing that everyone who plays long enough will lose. Options are Wall Street's slot machines.

Commissions Add Up: You'll pay a commission on both the purchase and sale, however. If you are fortunate enough to have a large account, it may seem inconsequential to pay a $10 commission on a $10,000 trade, but it isn't. If you're holding the position for only a few minutes or hours, you're likely hoping to make only $100 and (if you're smart) you've decided to limit your downside to a similar—or smaller amount. If the trades are equally likely to make a profit or loss, you'd make zero dollars at the end of a long run of trading—but for the commissions. The only mathematically expected change in your portfolio value from frequent day trading is the cost of the commission. You're going to lose money.

Few Winners: As a function, however, of the random walk of the markets, actual returns will vary. Some people will lose a lot. Some will lose everything. Some will lose exactly as expected—the sum of their commissions. Some will make enough just to cover commissions and end up with what they had in the beginning. A few will make money, but less than the markets earn. A tiny number over long periods of time will beat the markets over the long haul. They'll think it is because they've figured out the system.

They'll probably start teaching other people to trade, the vast majority of whom will not be able to repeat the feat.

Bottom line: Day trading is for Wall Street firms populated by guys with MBAs, PhDs and super computers. Competing against them is a sucker's bet.

Chapter 11

A Few Thoughts on Entrepreneurship

Six Family Friendly Tips for Successful Entrepreneurship

Thank heaven for entrepreneurs. Unless you are one of the one in three who work for the government, if you have a job, you have an entrepreneur to thank. Someone back in time launched that business and created the job that feeds your family. If you'd like to be an entrepreneur, the following tips will help you succeed at launching your own business while you maintain a happy and healthy home environment.

1. *Remember it will be tough*. Entrepreneurship is not for the weak. It is going to be tough. A lot tougher than you think. Really.

2. *Talk about it*. Sit down with your spouse and talk about the implications of your plan. Make sure that your spouse is 100% behind you. It may take time, but this step is the most critical step for maintaining a happy home with an entrepreneur in it. It may surprise you, but it may also be more important than you think for the success of the business. Many entrepreneurs have told me their spouses were key to their success.

3. *Coach the kids*. Your kids will be impacted by the change in ways that may be difficult to predict. The more successful the business is, the more they'll likely be impacted. An entrepreneur becomes completely absorbed in the business. Help the kids to understand what's going on.

4. *Figure out the money*. Don't take one more step until you've figured out the money. You will need money to live while you launch your business. Will you keep working at a day job while you work on your business at night? Is your spouse working? Will your spouse continue to work? Can you live on your spouse's income alone? What about the money for the business? Where will that come from? Don't be cavalier about spending college savings or retirement savings. Odds are against you getting this money back. Decide how much to risk and commit to risking more than that.

5. *Draw some boundaries*. The business, especially if it is successful, will encroach into the home and impact your family in unforeseen ways. Draw some boundaries now. Decide when you'll be home for dinner, how much you'll travel, when you'll make time for the kids, when you turn your phone off—not just the ringer—to protect your family. Entrepreneurship takes time and commitment, but so do families. Decide today that your family is more important than your business.

6. *Live the limits*. As you go forward, you will be tempted every day to violate the limits you've established. You'll want to use more money than planned. You'll want to travel more, work through dinner and skip family time. Don't do any of that. Keep the commitments to your family. The business will not succeed or fail based on late-evening, semi-productive, half-focused work product and phone calls. To the contrary, you may save your business, too, by empowering yourself to focus on work during work time and on the family during family time.

By following these six simple tips for successful entrepreneurship you can succeed both as a parent and as an entrepreneur. It doesn't matter whether you're hoping to launch the next Microsoft-scale technology venture or if you're planning to start doing day care in your home, the rules apply equally.

I Want To Start A Business; What Are The Risks?

Entrepreneurs have become heroes in America. They have come to symbolize what is right about this country. Increasingly, countries in Europe and Asia are seeking to emulate American models for entrepreneurship. It is no wonder that you'd like to join their ranks. Here are some of the risks you should think about before launching a business. Your family will thank you.

1. *Most businesses fail*. Surely you've heard that before. This honestly means that your business—yes yours—is more likely to fail than to succeed. You are more likely to put money in than to get money out of your business.

2. *Entrepreneurship is all consuming*. Most entrepreneurs find that their businesses become the focus of their attention, eating all of their time and energy. Even when entrepreneurs are with their families, their brains are engaged in the problems of the business.

3. *Friends lie*. You will have two kinds of friends answer your question, "what do you think of this idea for a business?" One set of friends will tell you it sounds great, regardless of what they think, because they are telling you what you want to hear. Another group of friends will tell you it will never work and why, even though they likely have no basis on which to make the judgment.

4. *First customers lie*. For many businesses, the first customers you find represent a group of people looking for exactly the service you are starting. They may be willing to pay more for the service and likely require much less marketing than the average customers. There simply may not be enough customers willing to pay the price you need to make money.

5. *Entrepreneurs see opportunity everywhere*. An entrepreneur driving across the desert will pass an abandoned gas station and think to himself, "I could make a go of that place." Most of the time they're wrong.

6. *Founders don't always win when their businesses do.* Steve Jobs was famously booted from Apple Computer by John Scully, who had been hired as the new CEO. That was not unusual. It was unusual that he was able to make over $100 million before he was booted. What was shockingly unusual was that he was recruited back to the company when it tanked. Many founders are long gone when success finally comes and have no part in it.

7. *Entrepreneurs may divorce more.* While no good data seems to exist on the topic, anecdotal evidence suggests that entrepreneurs divorce more than others. This may be a result of the financial stress of entrepreneurship, though the problem seems to be as prevalent among successful entrepreneurs as anywhere.

Entrepreneurs are heroes for a reason. In the face of impossible odds, they throw themselves into their work with passion that most of us can't muster and create jobs and opportunities that benefit countless people. Even when entrepreneurs are fabulously successful, the benefits to the community may exceed the benefit to the founder. Families, however, often pay a price for entrepreneurship. Before you launch a business, engage your spouse and family in a discussion about the risks and costs. Make sure you have their full support before you proceed.

Do The Tax Benefits Of A Home Based Business Make Up For The Losses In That Business?

Operating a business from your home may have significant tax advantages for your family, depending upon your circumstances. If the business loses money year after year, however, some of those advantages may disappear.

First, consider a few typical home-based business deductions:

1) Depreciation of your home: when running a business from home, you are eligible to depreciate a portion of your home—the portion devoted exclusively to the business—on your tax return. If you rent, you may be able to allocate a portion of your rent to the business, thus making it tax deductible as well. If you depreciate your home office for business purposes, when you sell your home, the sale—which would otherwise be tax free—could trigger a capital gain subject to tax. The beauty of the depreciation expense deduction is that you don't actually pay a dime for this expense. Simply allocating a portion of your home exclusively to the business creates an eligible deduction for which you have no cash outlay.

2) Mileage deduction: driving back and forth to work, even if you own the business, is considered commuting and is not deductible. If you have a home-based office, you can generally deduct the miles you put on your car driving around *for business purposes*. If you own an economical car, the deduction is likely to exceed the expense of driving the car.

3) Cell phone: if you must use your cell phone for work, you can generally deduct that expense—even if you also use it for personal reasons.

4) Other customary business expenses: some other household expenses, like relevant magazine subscriptions and newspaper subscriptions may also relate to the business and you may be able to deduct those as well.

As you can see, simply creating a home based business can allow you to create some tax deductions that you would not have as an employee of someone else's business—or even of your own business that is not home-based. There is one big caveat to these deductions —and some smaller ones:

1) Hobby loss rule: the IRS does not allow you to deduct losses on businesses it deems a hobby. This rule is subjective, but generally, if you have a small, home-based business that never makes a profit the IRS will likely make the case that it is a hobby and that the losses are not deductible from your other income. Furthermore, the appeal of a home based business that generates a loss goes away if you have no other income from which to deduct the losses.

2) Scale: for a typical home based business, there would be less than $10,000 per year of expenses associated with it being at home. If your business otherwise generates a large profit, the home-based business expenses may not make much of a difference. You might much rather have the business move out of your house than to keep deducting a few, modest expenses.

3) Social Security and Medicare Taxes: when you work for someone else, you pay only half of the Social Security and Medicare Taxes—your employer pays the other half. When you work for yourself, you pay both halves. So, if you create a home-based business that generates $50,000 per year in profits as an alternative to a $50,000 per year job, you'll actually pay more in taxes on the $50,000 profit than you did on the $50,000 job.

If you are excited to start a business and will operate it out of your home until it achieves a certain scale, be aware that in those early years when losses are likely they can help to reduce the taxes you pay on your income. If you wish to create a business simply for the purpose of creating a tax advantage, you are not likely to come out ahead in that game.

Be sure to consult a CPA before filing your tax return or launching a home-based business.

Chapter 12

Leave Your Mark on the World

How thankful are you?

Every year at Thanksgiving time North Americans make a great show of their gratitude, most often expressed as gratitude to God. Thanksgiving, at least in the U.S., leads directly to the Christmas holiday where gifts are given to friends and family as an expression of heartfelt love and appreciation. Good holiday feelings seem to give way each year to a renewed focus on self as resolutions to get in shape, lose weight and manage money better overwhelm the holiday spirit.

A thankful heart can be recognized any day of the year. Perhaps it should be recognized for a moment each and every day. Service to our fellow beings is an appropriate expression of gratitude any time.

Hunger: There are 870 million people in the world who are hungry. Starvation will kill more people than AIDS, malaria and tuberculosis combined. Even in America there are people who are hungry. Most Americans, however, really don't remember being hungry apart from self-imposed diets. How grateful for food are you? That question might best be answered by this question: how much food have you shared lately?

Birth Defects: Babies are born every day all around the world with easily fixed birth defects that are not fixed only because their families lack the funds to have them treated. Not only do most people in the developed world not suffer from these birth defects, Spina bifida, cleft palates, and common bladder problems, but when we do, they are promptly and efficiently treated. In developing countries, these birth defects may have a dramatic impact on a poor child now treated even worse because of a tragic but treatable fluke of fate. How grateful are you to have been born healthy? What have you done lately to help those who aren't so fortunate?

Homelessness: There are approximately 1.7 billion people in the world who are either homeless or without adequate housing. In the U.S., the homeless population includes many who are afflicted with mental illness or addictions. The problem of homelessness exists in every major metropolis around the world; no country is exempt. LGBT youth comprise about 40 percent of homeless youth in the U.S. How grateful are you for adequate housing? What have you done lately for the homeless in your community?

About 75 percent of Americans give something to charity each year. You're probably among them. You'd likely want to do more. By conscientiously working toward giving more to a cause that you care about, you can organize your time and your money to enable you to ennoble others.

Four steps for leaving your mark on the world

So you want to leave a legacy, a mark on the world that will remind your posterity of what you valued most and how you made the planet just a little bit better for your having been here. Here's a simple outline for doing just that.

1. Choose a cause. Find something for which you have a real passion. Find something that you can do with your friends and family. Choose something that you can do for decades, compounding your impact over time.

2. Get control of your money. Rich or poor, most people don't control their money—it controls them. Debts dictate what they do with their time and their money, leaving them unfulfilled and frustrated. Buy a home, get out of debt, save for your children's college and retirement.

3. Give time. Make time every week to give service for your chosen cause. Find ways to make a difference. Don't be discouraged thinking you can't make a difference in just a few hours (you're right—you can't). You can make a difference in 100 hours—or two hours a week for a year. You can make a difference in 1000 hours—100 hours a year for a decade. You can make a difference in 5000 hours—1000 per decade for five decades. You have plenty of time to give—start giving this week.

4. Give money. As you get control of your money, prove to yourself your commitment to change the world and start giving to your cause. If you're really strapped now, you may only be able to give 1 or 2 percent of your income to start. Over time, with dedication, you'll be able to organize your affairs to give 5 or even 10 percent of your income to your cause. If you make $75,000 per year and give 10% of that to your cause, you'll get the attention of just about any charity on the planet. If you do that every year, as you give your time to the cause as well, you'll find yourself helping to lead the organization, influencing how the money is spent and directing the mission of the organization.

You see, with four simple steps applied consistently across time, you can have an impact you might not ever have imagined. You can give amounts of money that may startle you today, but that will be world changing over your lifetime.

You are powerful. You can change the world. Just pick your spot and leave your mark on the world.

Five Ways that Giving Your Stuff Away Actually Saves You Money

It sounds impossible that giving your stuff away could save you money, but here we'll outline some ways that make cents as well as sense. You'll never get rich by giving your things to charity, but giving away the things you don't use may have bigger benefits than you'd expect.

Here are some ways that giving it away will save you money:

1. *The IRS thinks that donating your stuff is like donating money*. Never mind that you haven't used the junk stacked in the garage in years, if it is still in working condition, you can donate it to a charity that wants it and get a tax deduction equal to the retail value of the used item. In the U.S., you can donate and deduct up to $500 per year without elaborate records. It's a good idea to get receipts, but if you're not donating more than $500, you don't need to worry about sophisticated guesses about values. Just make reasonable guesses. (A twenty-year-old tie with mustard stains isn't worth $32.)

2. *You're buying furniture just to store it*. Most homes are full of stuff crammed into closets, cupboards and corners that are never used. The size of your home is, in part, determined by the amount of stuff you have. If you have less stuff, you need less furniture to hold it.

3. *Less furniture allows for a smaller home.* If you have less furniture, you need less house. Houses cost a lot. While, it would be costly to purge your house of stuff just to move to a smaller house, it makes a lot of sense to think about a serious purge to avoid moving to a bigger one. You can open up and create all kinds of space in your current home by getting rid of unneeded furniture and the stuff inside it.

4. *What's really in that storage unit?* If you have a storage unit that you rent to store old junk, ask yourself how long it's been since you've been to the unit to visit your stuff—forget using it. Chances are you're paying to store stuff you haven't used in years.

5. *Giving it away may be cheaper than selling it.* Think of all the hours of work and money you might spend to advertise and promote a yard sale or eBay listing. For all but your most valuable stuff, you may be money ahead just to give it away.

Giving your stuff to a charity that will either sell it to raise money or use it to carry out its mission can make a huge difference to the recipient. A homeless man with clean socks and a warm blanket may suddenly feel completely different about himself knowing that someone cared, perhaps enough to seek the help he needs to get off the street for good. A thrift store that provides employment training to people struggling to survive in our modern economy helps to bring entire families out of poverty and into the middle class. You can and should feel proud of yourself for donating your old stuff to your favorite cause.

How Do I Evaluate A Charity Before I Make A Donation?

Before parting with your hard-earned money, you should know a little bit about the organization you'll be supporting and how they will use the money.

Be cautious, however. Remember that Mother Teresa was often criticized for the way she did her work. Many criticisms of charities are leveled by people who are simply trying to make themselves feel better by pointing out the failings of charitable organizations.

There may be no more heinous theft than a scammer taking money in the name of charity and using it instead for personal hedonism. The following resources can help you identify authentic charities from scams:

1. Charity Navigator. Charity Navigator is itself a 501(c)(3) charity, meaning that donations to it are tax deductible. It provides a directory of charities and rates each charity on a variety of scores, allowing you to determine whether or not you'd like to contribute to a particular charity. It even posts the charity's financial statements. Charity Navigator does not accept donations from the charities it evaluates.

2. GuideStar. GuideStar is also a 501(c)(3) charity that evaluates and reports on other charities. Its data is shared broadly through the media and on some other web sites, including causes.com. Some information is only available if you purchase a $125 premium report.

3. State Regulators. Most states feature web tools and directories that will help you validate a charity registered in the state. New Jersey, for instance, has a site that allows you to do a quick search by name and offers up a list of the top 10 queries as well.

4. The Better Business Bureau. The BBB as it is often called maintains a database of businesses that includes charities. If they don't have a record of a charity, that isn't a good sign, but that doesn't mean you shouldn't donate. It could be a perfectly good, new charity. The BBB charges a fee for businesses to register; many charities do not. Complaints leveled against charities will show up whether or not the charity is registered.

5. Snopes. Snopes is a favorite site for people who receive—but likely don't send a lot of email forwards. Most emails that get forwarded around the world over and over again, including sappy pleas for money for a friend of a friend, are bogus. The best place to go to find out if the pathetic photo and sad story making the rounds today is legitimate is to go to Snopes, copy and paste a sentence from the email into the search box and you'll instantly be presented with a fact checked version of the story. Almost always the story is false, misleading or at least exaggerated. This is also a great place to find out if it is really true that blondes will be extinct within a few generations.

Using these resources, you should be able to readily determine if a charity is legitimate. If the charity is new or very small, it may not be in these databases but it may be legitimate. If there are no complaints with state regulators or the BBB, you may wish to use your good judgment and proceed with caution.

Your money or your life?

You've heard it before, "No one ever said on his deathbed, 'I wish I'd spent more time at the office.'" The implications are rich. In the end, it will not matter much how much money you had or what you accomplished. What will matter are your family and the legacy you leave behind, the mark you leave on the world.

Money is secondary in the long run, but it is a necessary part of life. Virtually all of the good you want to do in the world comes as a product of your money, from feeding your family to feeding poor people in the Congo.

Being wise with the money you have will empower you, making you the master and not the slave. If you take control of your money, you can do infinitely more good in the world. You can be recognized for your contribution to the welfare of others, for protecting the environment or serving whatever cause you choose, but to do so requires that you take charge.

Taking charge is all about eliminating debt and building up adequate financial reserves for the foreseeable problems in life. You can't hope to retire without retirement savings. You can't hope to send your children to college without a plan. You can take control.

By taking control of your money, you empower yourself. For instance:

1. Choosing your work: If you are in control of your money, you can afford to do whatever you want for your career; this freedom, ironically, may allow you to earn more than you would with your nose to the grindstone, always running to get ahead.

2. An empowered life: If you can choose your work, you have control over so much more. You can control your schedule, the time you spend with your family, the time you spend volunteering and the time you spend learning.

3. Power is impact: As you begin to exercise the power that comes from controlling your money and your life, you begin to have impact. Your impact will be wherever you want it to be.

4. Focus: If you focus your free time and your available financial resources on a cause, your impact will be concentrated. By focusing on a singular purpose, you can accomplish so much more.

5. Legacy: By applying focused time and money on a singular purpose across time you measure in decades, your impact will become your legacy.

Don't doubt your own power and influence. If you eliminate any financial problems and put yourself in control of your own financial destiny, you can change the world. Just pick the spot on the world, the cause or the purpose for your life, and leave your mark.

Seven Examples that Show Money's Only Real Value is the Good You Can Do With It

Our relationship with money is unusual. Money itself is virtually worthless. Its value lay in what we can do with it. It's true value lay in the good we can do with it. Consider the following examples:

1. The car in the driveway is of little intrinsic value, especially since it is slowly rotting and will eventually end up worthless in the junk yard. When you drive it back and forth to work, it plays a key part in providing for your family. When you drive it back and forth to school, ballet lessons and soccer games, it plays a vital role in developing a healthy family. By these measures, a 1998 Dodge Caravan may be just as valuable as a 2013 Lexus LX.

2. A small home on a quiet street where children can safely play outside with their neighbors may provide exactly the same—or better—utility and functionality as a home twice as big set well away from pesky neighbors whose names no one knows and faces no one recognizes.

3. Having the time to volunteer as the coach for the soccer team or as the Cub Scout Den Mother may be infinitely more valuable to your children and your community than how much money you have in the bank.

4. Teaching your children by example to donate time and money to worthy causes may have a far greater impact on the world than teaching your children how to "get ahead" in the world.

5. Making dinner for the neighbor after surgery doesn't take much money; it just requires being connected enough to your community to know she was having surgery.

6. You don't have to be Bill Gates to have an impact on the world, but if you measure your wealth with lots (and lots) of digits, you have a huge opportunity to make the world a much better place. (Bill Gates has pledged to donate 95% of his wealth and has already given away billions of dollars.)

7. There are almost 1 billion hungry people in the world. You can't feed all of them alone, but if every working family in the world fed just one, there would be no hungry people left to feed.

You can choose your legacy, the mark you leave on the world. You can define the person you are and how you are remembered. You can help your spouse and children to become who they most want to be. What will be the legacy you leave for your family?

How Volunteering Makes Good Financial Sense

Giving away some of your time makes good financial sense. Here's why:

1. Could you really make buying your kids an Xbox a high priority after spending a Saturday morning coaching soccer?

2. Would you focus as much attention on have a bigger home after spending an afternoon at the homeless shelter?

3. How much more time would you want to spend with your kids reading (for free) after spending an hour reading with a child whose parents don't?

4. What luxuries would you be inspired to splurge on after volunteering at a food bank, providing food to hungry families?

5. Would you be inspired to indulge your children with expensive toys after mentoring at risk youth?

6. Would you feel like making a large addition to your home after volunteering with Habitat for Humanity building a 900 square foot home for a family of four?

7. Would you be excited to spend $1,000 on a pure bread dog after volunteering at the local animal shelter?

8. Wouldn't you be most excited to spend time with your family after volunteering with a hospice organization and watching people die with dignity?

9. After running a 5k to support cancer research, wouldn't you be most interested in helping your family to live more healthy lives?

10. Would you feel like spending lavishly on your own family's Christmas after organizing a sub-for-Santa for a less fortunate family?

11. Wouldn't you just want to hug your kids and tell them you love them after spending time volunteering with children who'd been abused?

12. Wouldn't you want to focus on providing healthy food and healthy activities for your kids after volunteering to help families who have children sick in the hospital?

13. Wouldn't you be focusing on teaching your own children responsibility after speaking to kids in a juvenile detention center about career opportunities?

14. Would volunteering to help organize a local Special Olympics event help provide perspective that would make your old minivan adequate?

15. Would volunteering to help restore an ecologically sensitive site make you want to reduce your impact on the environment in general?

16. Would leading a Cub Scout Den or Girl Scout Troop make you more inclined to live an exemplary life? Would such a life include conspicuous consumption?

17. Would volunteering to help veterans who'd lost limbs in combat inspire you to spend extra money on shoes?

Service is not only its own reward, filling the lives of both the giver and the receiver with meaning, it also resets our thinking and provides perspective. Keeping up with the Joneses is suddenly irrelevant when eyes are opened to real suffering. The difference you make for others may be exceeded by the difference service makes to you.

How Much Money Can We Afford To Give To Charity?

Knowing how much money you can safely give to charity is challenging for everyone. Who doesn't want to give more to make the world a better place? On the other hand, no one wants to become a charity case as a result of giving too much to charity. On average, Americans who itemize their deductions donate about three or four percent of their income to charity. About 20% give more than 10% of their income to charity.

Here are some tips to help you find the right level of donations for your family:

1. You can probably give more than you think.

2. Focus on one, two or maybe three causes rather than scattering money here and there.

3. Volunteer your time toward your cause, too.

4. The money you give shouldn't be the money you'd save for college or retirement.

5. You can organize your personal finances to empower you to give more.

6. Eliminating debt will enable you to give much more. The interest you may be paying is eating into every good and noble thing you'd like to do.

7. You can cut expenses significantly over time by driving your cars for a longer period of time; buying cars—the transaction itself—is expensive.

8. Stay in your home longer. By staying in your home for a very long time, your mortgage payment will slowly shrink (in economic terms)with inflation, allowing you more flexibility over time to donate to charity.

9. Make your donations a priority. If you only give what is left, you won't be giving much. Make your donations first, then contribute to savings and, finally, spend what is left.

10. Set a goal for contributing to charity, perhaps as a percentage of your income.

11. Measure your financial progress in all areas, including giving to charity.

12. Leverage your contributions by motivating others to give.

13. Get the whole family involved in your cause.

14. Let the kids donate their time and money, too.

15. Get your extended family involved.

16. Get the neighbors involved.

17. You will have setbacks.

18. Don't be discouraged by setbacks.

19. Think long term.

20. Everything counts. One can of soup donated to a food bank may feed a hungry family.

21. Little things add up. One can of soup every week for years will feed many hungry families.

22. Don’t be ashamed to give a little.

23. Everyone can do something. When you can’t give money, give time.

24. Be patient. You are making a difference.

25. Don’t give up on feeding hungry people because there will always be hungry people; the ones you feed will be glad you didn’t give up.

26. Set your ego aside. You can do more when you’re not worried about who gets the credit.

Giving money to charity is a deeply personal thing that brings joy both to the families who give and to the families who receive. Everyone has a chance to do both in life.

There are opportunities to volunteer everywhere

If you and your family would like to find ways to volunteer but aren't sure where and how, the answer is just a Google search away. There may be no better family activity than serving others together. When you can't volunteer as a team, remember you set an example for your children whenever you serve. Leverage your skills, talents and training to do the most good.

Here are some ideas to get you started either as a family or individually:

1. Teach seniors, the disabled, or children about your favorite family hobbies.

2. Help seniors or other low income people with tax returns.

3. Volunteer at the local food bank.

4. Serve dinner to the homeless in your community.

5. Perform your talent for seniors in your community.

6. Help teach homeless kids to read.

7. Volunteer at the school your children attend.

8. Play games with children at the local homeless shelter.

9. Volunteer at a museum for children.

10. Tutor immigrants and refugees, helping them to learn English.

11. Deliver food to the hungry and homeless.

12. Volunteer in the office of your favorite charity.

13. Volunteer as an outreach advocate for your favorite cause.

14. Entertain intellectually challenged adults.

15. Volunteer with refugee and immigrant women to help them understand their rights here.

16. Volunteer to help with the medical care for uninsured families.

17. Become a care giver in a crisis nursery where parents take their children when they are at their breaking point.

18. Volunteer in an animal shelter to help care for the animals.

19. Help raise money for a cause by running in a 5k as a family.

20. Join a service organization like Rotary International.

21. Become a foster grandparent.

22. Become a foster parent.

23. Help grow food for the needy.

24. Volunteer legal services to the poor.

25. Become a volunteer writing coach at the library.

26. Translate at the hospital for immigrants who speak your second language.

27. Tutor children living in shelter situations.

28. Help families with children receiving treatment for serious health problems.

29. Help with children at your local elementary school in the before or after school programs.

30. Volunteer to help cancer patients with emotional or transportation support.

Whatever you choose to do will make the world a better place and will make you a bit happier, too. Your children will learn from being involved with you and from watching you serve. Your impact will be exponentially larger than you imagine.

About the Author, Devin D. Thorpe

Devin Thorpe thinks he is the luckiest person alive. After being "let go" from the best job he'd ever had—as the Chief Financial Officer of the multinational food and beverage company MonaVie—he and his wife ended up living in China for a year where he wrote *Your Mark On The World* and embarked on the career he'd always wanted and hadn't dared dream.

Now, as an author and blogger for Forbes Devin writes about the things that inspire him, mostly stories of people who are making a positive difference in the world and how we can all be more like them. His current life isn't much like his past. As an entrepreneur, Devin ran—at separate times—a boutique investment banking firm and a small mortgage company. He served as the Treasurer for the multinational vitamin manufacturer USANA Health Sciences years before becoming CFO for MonaVie.

Devin squeezed in two brief stints in government, including two years working for Jake Garn on the U.S. Senate Banking Committee Staff and another year working for an independent state agency called USTAR, where he helped foster technology entrepreneurship during Governor Jon Huntsman's administration.

Devin is proud to be a Ute, having graduated from the University of Utah David Eccles School of Business, which recognized him as a Distinguished Alum in 2006. He also earned an MBA at Cornell University where he ran the student newspaper, *Cornell Business*.

Today, Devin channels the idealism of his youth, championing social good, with the loving support of his wife, Gail. Their son Dayton is a PhD candidate in Physics at UC Berkeley (and Devin rarely misses an opportunity to mention that).

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